

**STATE OF TENNESSEE  
DEPARTMENT OF AUDIT  
2001 ANNUAL REPORT**



**JOHN G. MORGAN  
COMPTROLLER OF THE TREASURY**

# **Department of Audit**

**2001 Annual Report**

**to the  
Tennessee General Assembly**



Comptroller of the Treasury, Authorization No. 307161. This public document was promulgated at a cost of \$3.71 per copy.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

December 28, 2001

The Honorable Don Sundquist, Governor  
The Honorable John S. Wilder, Speaker of the Senate  
The Honorable Jimmy Naifeh, Speaker of the  
House of Representatives  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

The 2001 annual report of the Department of Audit is submitted herewith in accordance with Section 4-3-304 of *Tennessee Code Annotated*.

The Department of Audit conducts audits or ensures that audits are conducted of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

In submitting this report, I would like to express my appreciation to all those who made possible the results reported, particularly the members of the General Assembly and the staff of this office.

Respectfully submitted,

John G. Morgan  
Comptroller of the Treasury

JGM/ab

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# Comptroller of the Treasury

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**John G. Morgan**  
**Comptroller of the Treasury**

In January 1999, John G. Morgan was elected Comptroller of the Treasury by the Tennessee General Assembly. Born on January 4, 1952, in Nashville, Tennessee, Mr. Morgan graduated from Austin Peay State University in 1974. He did graduate work at Louisiana State University from 1974 to 1976 and entered state government as a research assistant for the Legislative Fiscal Review Committee in 1976.

From 1978 to 1980, Mr. Morgan was a research assistant in the Department of Finance and Administration, and from 1980 to 1982, was an administrative assistant to the State Treasurer. In 1982, he began working in the Office of the Comptroller of the Treasury as Assistant Director of Bond Finance. He served as Director of Bond Finance from 1983 to 1987 and in 1987 also became Assistant to the Comptroller.

In October of 1987, Mr. Morgan left state government and became Vice President, Director of Public Finance, for Third National Bank

in Nashville. In February of 1989, he returned to state government as Executive Assistant to the Comptroller of the Treasury. Mr. Morgan is a former board member of the Tennessee Municipal League Risk Management Pool, Tennessee Municipal Bond Fund, and Nashville Thermal Transfer Corporation. He served as chairman of the National State Auditors Association Performance Audit Committee for the two years ended June 30, 2001. He is married to Donna Morgan, and they have two sons, Brian and Kevin.

## **Comptroller Emeritus**

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**William R. Snodgrass  
Comptroller Emeritus**

After serving as Comptroller of the Treasury from 1955 to 1999, Mr. Snodgrass decided not to seek another term of office. On January 13, 1999, by Joint Resolution of the 101<sup>st</sup> General Assembly, he was named Comptroller Emeritus for his unparalleled contribution to the government and citizens of Tennessee. He continues to serve as a senior policy advisor for the Office of the Comptroller.

## Comptrollers of the Treasury

Daniel Graham	1836-1843
Felix K. Zollicoffer	1843-1849
B.H. Sheppard	1849-1851
Arthur R. Crozier	1851-1855
James C. Luttrell	1855-1857
James T. Dunlap	1857-1861
Joseph S. Foster	1861-1865
S.W. Hatchett	1865-1866
G.W. Blackburn	1866-1870
E.R. Pennebaker	1870-1873
W.W. Hobbs	January to May 1873
John C. Burch	May 1873-1875
James L. Gaines	1875-1881
James N. Nolan	1881-1883
P.P. Pickard	1883-1889
J.W. Allen	1889-1893
James A. Harris	1893-1899
Theo F. King	1899-1904
Frank Dibrell	1904-1913
George P. Woollen	1913-1915
John O. Thomason	1915-1923
Edgar J. Graham	1923-1931
Roy C. Wallace	1931-1937
John W. Britton	1937-1938
Marshall E. Priest	1938-1939
Robert W. Lowe	1939-1945
Jared Maddux	January to April 1945
Sam K. Carson	April 1945-1946
Jared Maddux	1946-1949
Cedric Hunt	1949-1953
Jeanne S. Bodfish	1953-1955
William R. Snodgrass	1955-1999
John G. Morgan	1999-



## **Department of Audit**

**John G. Morgan**

Comptroller of the Treasury

**Richard V. Norment, CIA, CGFM**

Assistant to the Comptroller for County Audit

**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE,  
CGFM, DABFE, DABFA**

Director of State Audit

**Dennis F. Dycus, CPA, CFE, CGFM**

Director of Municipal Audit

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## **State of Tennessee**

**Don Sundquist**

Governor

**John S. Wilder**

Speaker of the Senate and Lieutenant Governor

**Jimmy Naifeh**

Speaker of the House of Representatives

**Riley Darnell**

Secretary of State

**John G. Morgan**

Comptroller of the Treasury

**Steve Adams**

State Treasurer

**Paul G. Summers**

Attorney General and Reporter

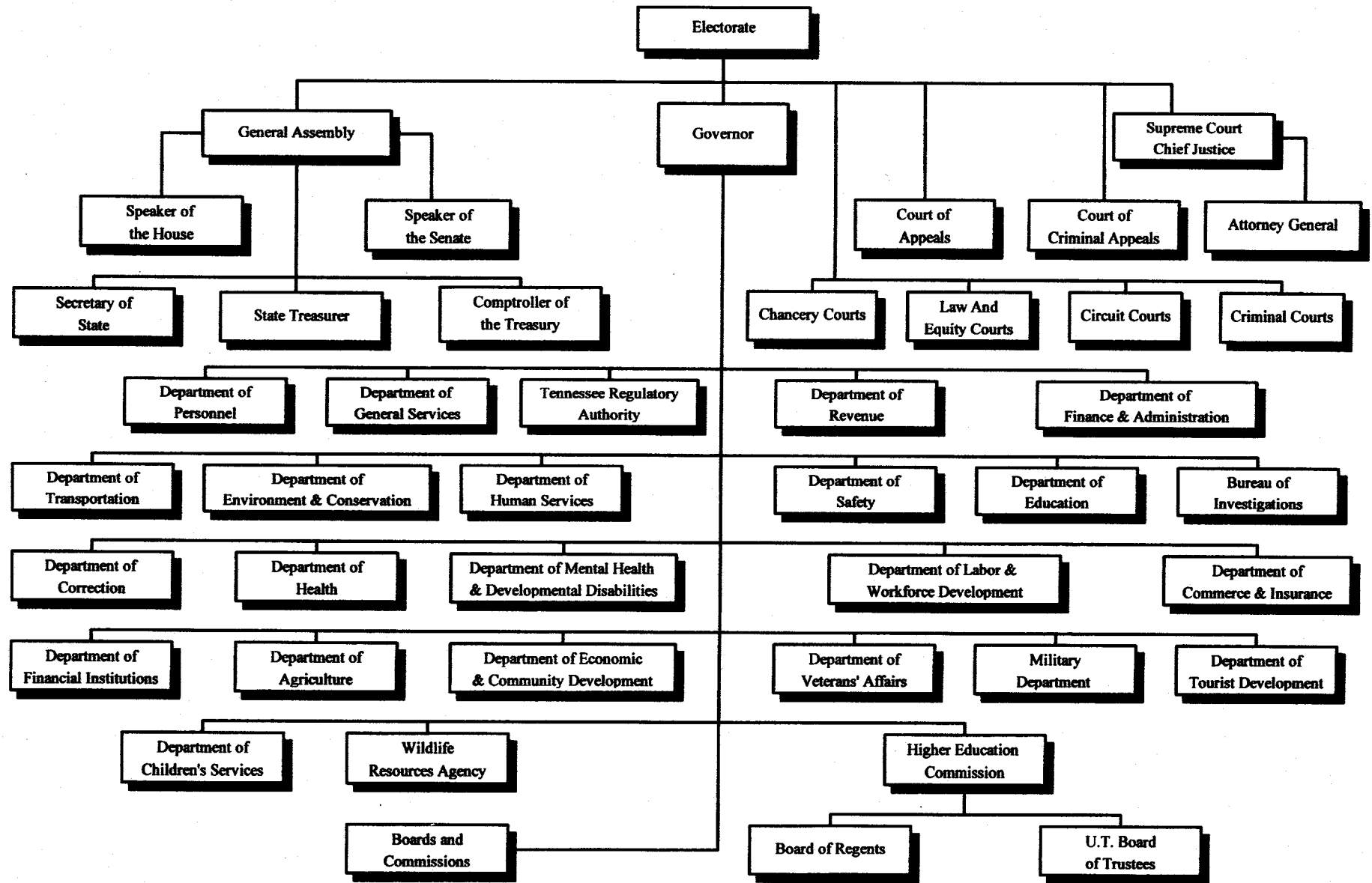
**C. Warren Neel**

Commissioner of Finance and Administration

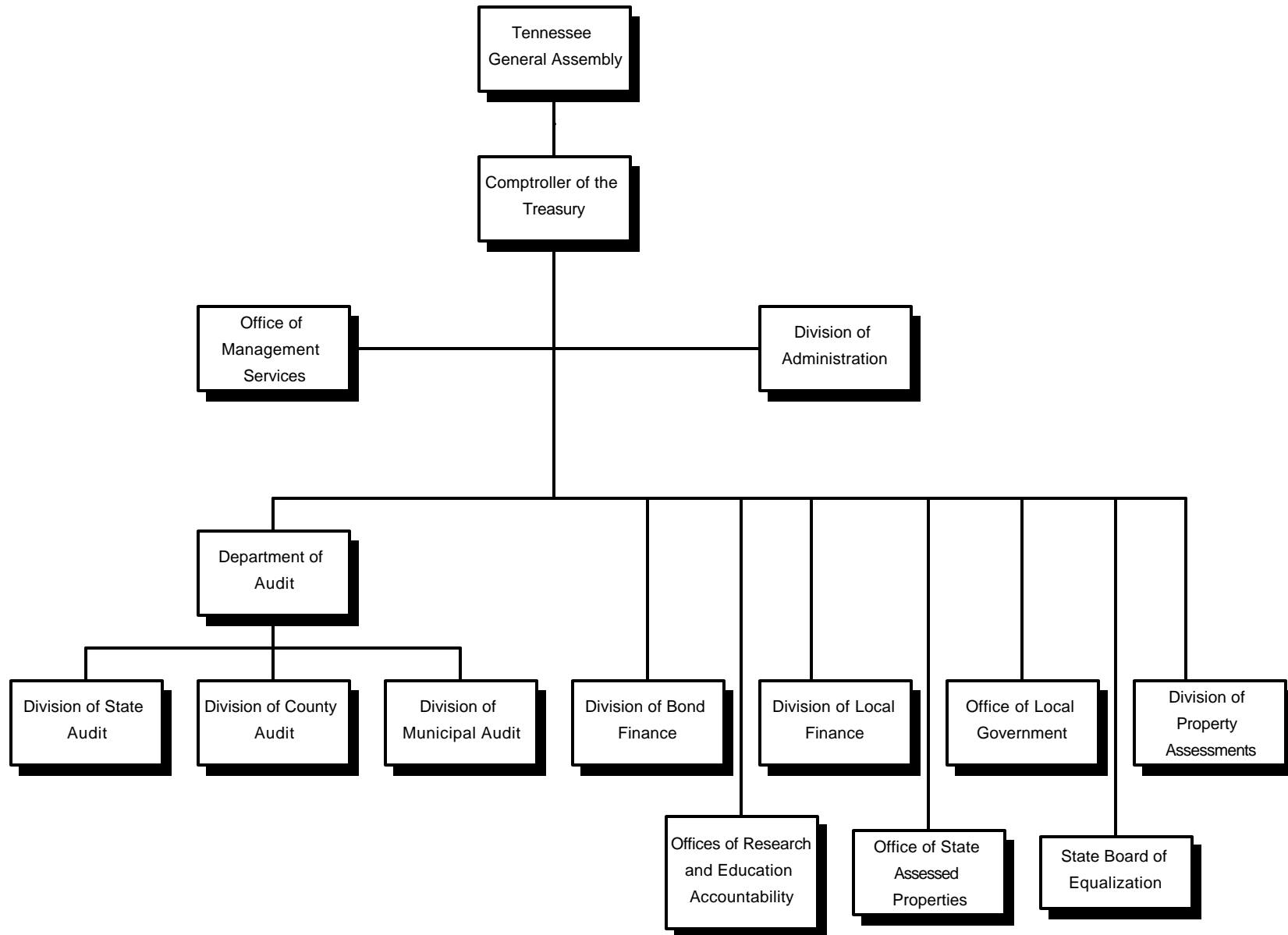
**Frank F. Drowata**

Chief Justice of the Supreme Court

# State of Tennessee



## Office of the Comptroller of the Treasury



# Office of the Comptroller of the Treasury

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The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. State statutes prescribe the Comptroller's duties; among these duties are the audit of state and local governmental entities and participation in the general financial and administrative management of state government. The Department of Audit performs the audit function for the Comptroller. He also serves *ex officio* as a member of various committees, boards, and authorities.

Advisory Commission on Intergovernmental Relations  
Baccalaureate Education System Trust  
Board of Claims  
Board of Equalization  
Board of Standards  
Building Commission  
Child Care Facilities Corporation  
Competitive Export Corporation  
Consolidated Retirement System Board of Trustees  
Council on Pensions and Insurance  
Funding Board  
Governor's Council on Health and Physical Fitness  
Health Facilities Commission  
Higher Education Commission  
Housing Development Agency  
Information Systems Council  
Library and Archives Management Board  
Local Development Authority  
Local Education Insurance Committee  
Local Government Insurance Committee  
Public Records Commission  
Publications Committee  
School Bond Authority  
Security for Public Deposit Task Force  
Sports Festivals, Inc.  
State Capitol Commission  
State Insurance Committee  
State Trust of Tennessee Board of Directors  
Student Assistance Corporation  
Tuition Guaranty Fund Board  
Utility Management Review Board  
Water/Wastewater Financing Board

In addition to the Department of Audit, the Office of the Comptroller includes nine other divisions.

**Division of Administration**

The Division of Administration provides overall direction, coordination, and supervision to the various divisions within the Comptroller's Office. The division also provides research on particular topics involving state finances and assists various committees and members of the General Assembly in their review of state finances, including review, analysis, and drafting of proposed legislation.

**Office of Management Services**

The Office of Management Services provides the various divisions of the Comptroller's Office financial, administrative, and technical support and services in the areas of accounting, budgeting, payroll and personnel, information systems, contracting matters, and printing. The office assists the Comptroller in fulfilling his responsibilities involving policies, plans, reports, special projects, and contract review and approval. The office also provides the Comptroller technical and analytical assistance in support of his responsibilities as a member of certain boards and commissions, such as the State Building Commission, Board of Standards, and Information Systems Council. The office assists in recruiting auditors and accountants for all audit divisions and is responsible for developing the Affirmative Action Plan. The office has lead responsibility for overseeing the continuous improvement projects for the Comptroller's Office.

**Division of Bond Finance**

The Division of Bond Finance is responsible for the issuance and repayment of debt by the State Funding Board, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority and for the issuance of debt by the Bond Finance Committee of the Tennessee Housing Development Agency.

The proceeds of these debt obligations are used to finance general state infrastructure; provide loans to local governments for water and sewer systems, resource recovery, public works projects, airports, and rural fire equipment; provide loans to certain nonprofit corporations for mental health, mental retardation, and alcohol and drug facilities; construct revenue-producing facilities at the state's public higher education facilities; and provide single-family mortgages at below market interest rates to low- and moderate-income persons.

The division, jointly with the Department of Environment and Conservation, administers the State Revolving Funds, which provide loans to local governments for sewer works and water works. The division, jointly with the Department of Transportation, administers the Utility Relocation Loan Program, which provides loans to local governments for relocation of utilities required by highway construction. The division administers the loan guarantee program of the small and minority business telecommunication business assistance program under the Department of Economic and Community Development.

**Division of Local Finance**

The Division of Local Finance has as its principal responsibility the task of providing assistance to local governments in Tennessee. Among these local governments are counties, municipalities, utility districts, special school districts, and emergency communications districts. The division's responsibilities, as prescribed by state statutes, include the following:

- Approving certain debt obligations of local governments and approving the budgets of these local governments
- Approving and filing the official statutory bonds required by law for elected and appointed local government officials
- Approving certain investments of local governments in accordance with procedures established by the State Funding Board
- Receiving and filing information reports on debt obligations issued by local governments and reporting such information to the Tennessee General Assembly annually

In addition, the division assists in the preparation of legislation affecting local governments; prepares fiscal notes on legislation presented to the General Assembly concerning local governments; and prepares an annual report of the financial operations of counties and municipalities in Tennessee as reported in their audited financial statements on file in the audit divisions of the Office of the Comptroller. Local governments call on the division daily for assistance in each area of responsibility.

**Office of Local Government**

The Office of Local Government provides information and assistance to local government officials and to the legislature as needed. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census in preparing for the decennial census.

**Division of Property Assessments**

The Division of Property Assessments assists local governments in the professional administration of property tax programs and provides data processing services for assessment and tax billing. In accordance with state statutes governing reappraisal, the division monitors county visual inspection and reappraisal programs, provides technical assistance to counties during reappraisal programs, and performs current value updating programs. In addition, the division performs biennial appraisal ratio studies, updates property ownership map originals, develops and conducts educational and training courses for assessment officials, and assists the State Board of Equalization in maintaining the Assessor Certification Program. The division also administers the Tax Relief Program.

<b>State Board of Equalization</b>	The State Board of Equalization is a quasi-judicial and policy-making body responsible for the review and equalization of property tax assessments; the promulgation of assessment guidelines, rules, and manuals; and the professional education and training of assessment officials. The board's duties further include hearing and acting on appeals relating to property tax assessments from the Office of State Assessed Properties (public utilities) and the county boards of equalization, reviewing certified tax rates, and reviewing applications for various property tax exemptions.
<b>Offices of Research and Education Accountability</b>	<p>The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly reports on a variety of education topics. The office assists the House and Senate education committees as requested and provides the legislature an independent means to evaluate the effects of increased expenditures in education. The office also serves as a general resource for the General Assembly on national education trends.</p> <p>The Office of Research conducts research projects on state and local government issues at the request of the Comptroller and the General Assembly. The office also assists the State Funding Board in analyzing the annual economic forecast prepared by the Center for Business and Economic Research. The office assists the Comptroller with preparation of fiscal notes for the Fiscal Review Committee, monitors legislation, and analyzes the budget. The Office of Research has also helped provide general staff support to a number of special legislative committees and commissions.</p>
<b>Office of State Assessed Properties</b>	The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in <i>Tennessee Code Annotated</i> , Section 67-5-1301. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.
<b>Authority for Post-Audit</b>	<p>The General Assembly created the Department of Audit in 1937. Authority to audit state and county governmental entities is contained primarily in Section 4-3-304, <i>Tennessee Code Annotated</i>. The department is required to</p> <p style="padding-left: 40px;">perform currently a post-audit of all accounts and financial records of the state government . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .</p> <p style="padding-left: 40px;">make annually, and at such other times as the general assembly shall require, a complete report on the post audit . . .</p> <p style="padding-left: 40px;">certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as</p>

prepared by the department of finance and administration, or by the state treasurer, before publication of such statements . . .

serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances . . .

make annually an audit of all the records of the several counties of the state . . .

perform economy and efficiency audits, program results audits and program evaluations . . .

require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury and . . . be prepared in accordance with standards established by the comptroller . . .

require that all persons, corporations or other entities who receive grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller . . .

Statutory authority to perform limited reviews of state governmental entities, usually called Sunset performance audits, is provided by Section 4-29-101 et seq., *Tennessee Code Annotated*.

All municipalities are required to have annual audits as provided in Section 6-56-105, *Tennessee Code Annotated*. Sections 7-82-401, 9-3-111, and 49-2-112 require that all utility districts, school activity and cafeteria funds, and various municipal enterprises that handle public funds be audited annually.

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**Audit Standards**

Sections 4-3-304 and 6-56-105, *Tennessee Code Annotated*, give the Comptroller responsibility for ensuring that the audits of counties and municipalities are prepared in accordance with generally accepted government auditing standards and other minimum standards established by the Comptroller.

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**Audit Follow-up**

Section 8-4-109, *Tennessee Code Annotated*, requires a follow-up of audits of state departments, agencies, and institutions. Audited entities are required to respond to audit findings and recommendations, within six months after the release of the audit report, concerning the effective and efficient management of accounts, books, records, or other evidence of financial transactions. If state entities fail to implement audit recommendations within a reasonable time or fail to provide other reports required by this statute, the Comptroller is required to notify the chairmen of the Senate and House Finance, Ways and Means Committees.





# Department of Audit

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The Department of Audit comprises three divisions—State Audit, County Audit, and Municipal Audit—and employs approximately 300 people. Each division is administered by a director. The three directors are responsible for coordinating the audit function within the department and for addressing concerns and issues in auditing.

The Department of Audit is a post-audit agency. As such, it audits an entity's financial statements; an entity's compliance with applicable statutes, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period.

The basic purpose of post-audits is to identify and report past errors and recommend future improvements. Pre-audits, in contrast to post-audits, are performed within an entity by its own employees to prevent errors, detect problems, and suggest improvements. The most important distinction between pre-audits and post-audits is that post-audits are organizationally independent of the audited entity. In this respect, a post-audit agency in government is comparable to an independent public accounting firm in the private or business sector.

Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government. The department is accountable to the General Assembly and provides information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

The department's professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, law, political science, criminal justice, education, and nursing. More than 40 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 2001, 122 employees of the department had received one or more professional certifications. The appendix identifies those employees who passed a certification exam during the year ended June 30, 2001, and also includes a list of all employees holding professional certifications. This range of experience gives a broad perspective to the department's audit work.

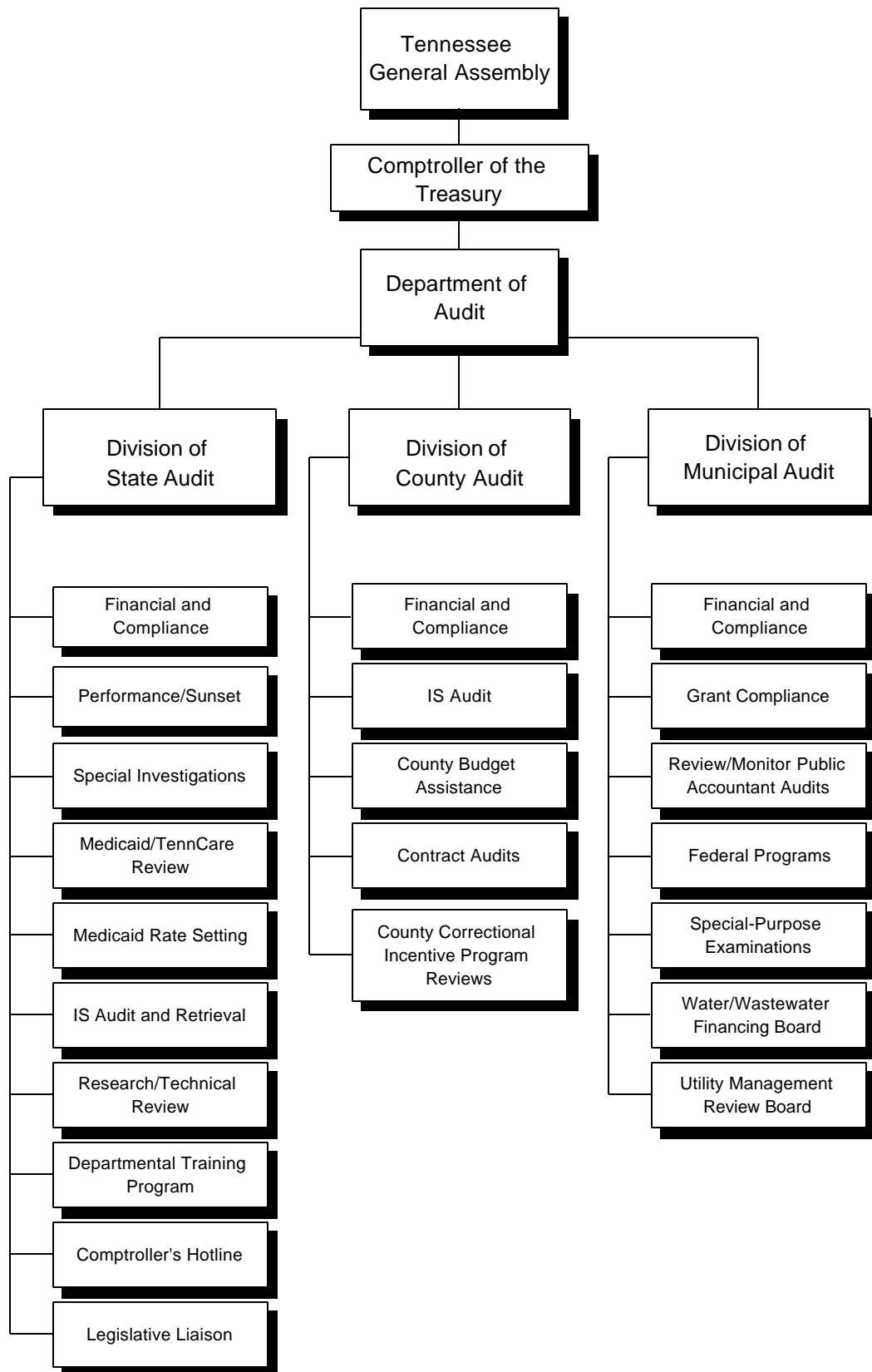
Members of the staff also participate in the following professional organizations:

- American Institute of Certified Public Accountants
- American Society for Public Administration

- Association of Government Accountants
- Information Systems Audit and Control Association
- Government Finance Officers Association
- Institute of Internal Auditors
- Association of Certified Fraud Examiners
- Tennessee Government Finance Officers Association
- Tennessee Society of Certified Public Accountants
- National Association of State Auditors, Comptrollers, and Treasurers

Participation includes attending and contributing to annual meetings, serving as officers, and sitting on committees and project task forces.

# Department of Audit





# Improving the Audit Process

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The Comptroller of the Treasury and the Department of Audit strive to preserve the integrity and improve the quality and usefulness of the audits of governmental entities and grant recipients at all levels. To accomplish this goal, the department works closely with state and national organizations and professional associations concerned with governmental accounting, auditing, and financial reporting.

Richard V. Norment, Assistant to the Comptroller for County Audit, is the national president of the Association of Government Accountants and is a member of the Executive Committee. Mr. Norment is a member of the Government Finance Officers Association's (GFOA's) Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting program and is a member of the Executive Committee of the Southeastern Intergovernmental Audit Forum. In addition, Mr. Norment is immediate past-president of the Tennessee Government Finance Officers Association.

Arthur A. Hayes, Jr., Director, Division of State Audit, is chair of the National State Auditors Association's Human Resources Committee and past chair of the Audit Standards and Reporting Committee. He is a member of the Program Committee of the Southeastern Intergovernmental Audit Forum and a member of the Governmental Committee of the Tennessee Society of CPAs. In addition, Mr. Hayes is a member of the Professional Advisory Council of the School of Business, Tennessee State University, and a former member of the Executive Board of the Government Finance Officers Association of the United States and Canada (GFOA). Both a certified public accountant and a licensed attorney, Mr. Hayes is a member of the Association of Certified Fraud Examiners, the Association of Government Accountants, the American Board of Forensic Examiners, and the American Board of Forensic Accountants. He has authored numerous articles for auditing and accounting professional publications.

Dennis F. Dycus, Director, Division of Municipal Audit, serves as a member of the Board of Regents of the Association of Certified Fraud Examiners, a faculty instructor for the association on a national basis, and as a director of the Middle Tennessee Chapter. Mr. Dycus was the recipient of the association's Distinguished Service Award for his contribution to the detection and prevention of fraud. He was one of only three members of the association to be recently designated as an Association Fellow in recognition of his "outstanding achievements in and significant contributions and exceptional service to the field of fraud examination." Mr. Dycus presently serves as a member of the Accounting Advisory Council for the Gordon Ford College of Business at his alma mater, Western Kentucky University, and is also active as a member of the Middle Tennessee Chapter of the Association of Certified Fraud Examiners, the Tennessee Society of

Certified Public Accountants, the American Institute of Certified Public Accounts, the Government Finance Officers Association, and the Association of Government Accountants. In addition, he has authored articles related to fraud for national publications.

Other staff serve on committees of the following national organizations:

- Association of Government Accountants  
National Executive Committee—Barbara White, Division of State Audit  
Regional Vice President—Deborah Loveless, Division of State Audit
- National State Auditors Association  
Performance Audit Committee—Deborah Loveless  
Quality Control Review Committee—Deborah Loveless  
Single Audit Committee—Gerry Boaz, Division of State Audit  
Information Technology Committee—Dan Willis, Division of State Audit  
Training Committee—Dan Willis  
Audit Standards and Reporting Committee—Gerry Boaz
- Government Finance Officers Association  
Executive Board—Barbara White  
Committee on Accounting, Auditing, and Financial Reporting—Barbara White  
Special Review Committee—Barbara White, Gerry Boaz

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**Accounting and Financial Reporting Standards**

The Governmental Accounting Standards Board (GASB) has been the authoritative accounting and financial reporting standard-setting body for state and local governmental entities since June 1984. The Division of State Audit's technical analyst attends the board's meetings as an observer and writes and distributes a report to members of the National Association of State Auditors, Comptrollers, and Treasurers.

Like its commercial-sector counterpart, the Financial Accounting Standards Board, the GASB operates under the auspices of the Financial Accounting Foundation and is located in Norwalk, Connecticut. As of June 30, the GASB had issued 38 authoritative standards, two concept statements, six interpretations, and nine technical bulletins, as well as several exposure documents from which standards are developed.

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**Generally Accepted Government Auditing Standards**

The Department of Audit performs its audits in accordance with government auditing standards generally accepted in the United States of America as set forth by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book). These standards apply to financial and performance audits. The Yellow Book incorporates the generally accepted auditing standards for field work and reporting and attestation standards set forth by the American Institute of Certified Public Accountants.

The Department of Audit conducts its single audit in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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## Quality Control Review

The department internally monitors the quality of audit work through its Quality Control Review Committee, composed of senior staff from each of the department's three divisions. The quality control review consists of three phases:

- Review of policies and procedures
- Review of compliance with professional standards and departmental policies and procedures
- Review of compliance with *Working Paper Techniques*

The Quality Control Committee conducts a review of the department's policies and procedures biennially. An Audit Review Subcommittee is appointed biennially to review audits to determine whether the department has complied with professional standards and departmental policies and procedures. This Audit Review Subcommittee consists of audit managers and senior auditors who serve on a rotating basis. This review is similar to the external quality control review program used by the National State Auditors Association. Quarterly, the Quality Control Committee appoints a Working Paper Review Subcommittee. This committee consists of senior auditors who serve on the committee on a rotating basis to review the department's compliance with *Working Paper Techniques*. The results of the committee's reviews are communicated to all managerial personnel in the department.

In addition to the Quality Control Review Committee, each division has an established process whereby each audit is reviewed prior to release for adherence to the standards. The department also undergoes an external review of its quality control system. Section 8-4-102, *Tennessee Code Annotated*, states:

Previous to the convening of each biennial general assembly, the speaker of the senate and the speaker of the house jointly may contract for the services of an independent public accounting firm to audit or review the operations of the office of the comptroller, or may call upon the director of the division of state audit to review with them a current audit of the comptroller of the treasury. The speakers may appoint a committee of the general assembly for the purpose of such review.

The Speakers directed the Department of Audit to undergo a quality assessment review under the auspices of the National State Auditors



Association. The most recent review was performed in August 2000 by certified public accountants and other professionals holding executive-level posts in federal and state governments. The purpose of the review was to ensure that the department is meeting its responsibility to perform audit work in accordance with government auditing standards generally accepted in the United States of America.

The report of the quality assessment review for the year ended June 30, 2000, rendered an unqualified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the Department of Audit's system of quality control for audits issued from July 1, 1999, through June 30, 2000, was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards." The next quality assessment review is scheduled for August 2002.

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## **Training**

The Department of Audit ensures its auditors receive the required continuing professional education to meet certification standards and *Government Auditing Standards*. Auditors participate in the department's in-house training program as course developers, presenters, and participants. Volunteer instructors from throughout the department present some 29 courses in the department's in-house program. These courses range from "Auditing for Fraud" to "Planning, Monitoring, and Supervising an Audit" to "Audit Command Language."

The department's commitment to training extends to auditors and accountants throughout state government. Therefore, many of the in-house classes are open to other agencies, and one or more seminars open to state accounting and auditing personnel are held each year.

All training is offered with the assistance of the Department of Audit Advisory Committee on Training, whose members represent all divisions and sections of the department. The 14 members are volunteers who work to improve the training program by surveying the staff's training needs, suggesting new classes, recommending ways to improve existing classes, and upgrading program administration. The training coordinator chairs the committee.

For the twentieth year, the Department of Audit and the National Association of State Auditors, Comptrollers, and Treasurers cosponsored the annual Governmental Auditor Training Seminars for public accounting firms performing governmental audits in Tennessee. The seminars were held in Cleveland, Jackson, Morristown, and Nashville.

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**Local Representation in Professional Organizations**

The Department of Audit fully supports its staff's active participation in local professional organizations, recognizing that these organizations contribute to the staff's continued growth.

The department plays a significant role in the activities of the Nashville chapter of the Association of Government Accountants. Jim Arnette from the Division of County Audit is president-elect. Members of the chapter's executive committee include Greg Worley from the Division of County Audit, and Mason Ball and Will Hancock from the Division of State Audit. In addition to holding top offices, department staff are well represented in the Nashville chapter's organization, serving on almost every committee.

Art Hayes and Bob McCloud from the Division of State Audit are directors of the Middle Tennessee Chapter of the Association of Certified Fraud Examiners and are members of the Conference Committee.

Phil Job, Municipal Audit, was the first runner-up for the Association of Certified Fraud Examiners' Walker Award, given to the candidate who scores highest on the CFE exam. He correctly answered 499 of 500 questions.

Deborah Loveless, Division of State Audit, is a director of the Tennessee Chapter of the American Society for Public Administration.



# Division of State Audit

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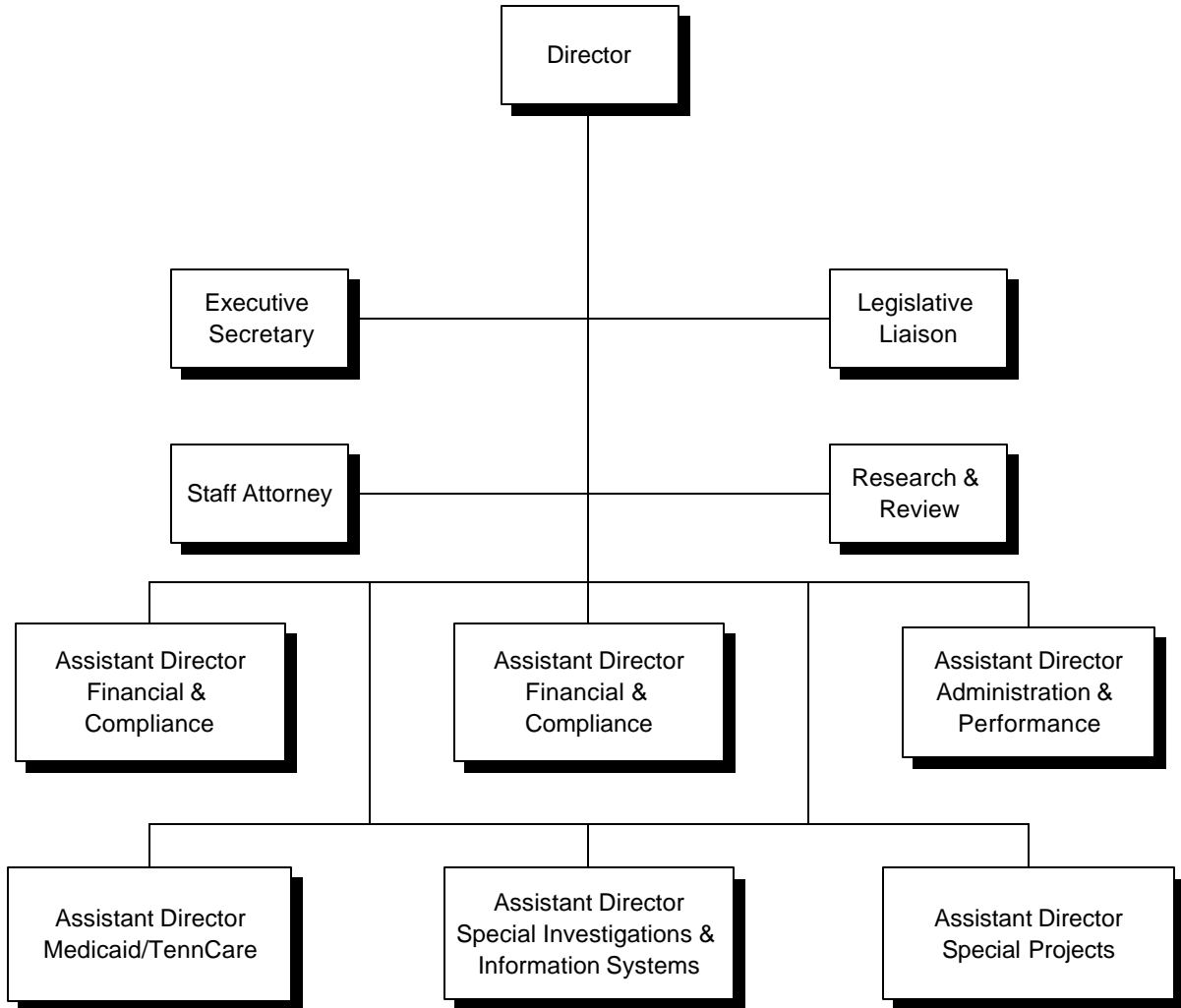
**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA  
Director**

The Division of State Audit conducts financial and compliance audits, performance audits, and investigations. It also performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state's financial condition and the performance of the state's many agencies and programs. This division thus aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. In fulfilling this audit function, the division issued 83 reports during the year ended June 30, 2001; an additional 136 audits and special investigations were in progress at June 30, 2001.

This division includes five sections: financial and compliance, Medicaid/TennCare, performance, special investigations, and information systems. Highlights of the work each section performed from July 1, 2000, through June 30, 2001, are presented in this chapter. Complete reports are available upon request or on the Internet at [www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).

In addition to auditing, the division reviews and comments on exposure drafts from professional organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly by consulting with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

## Division of State Audit



## Financial and Compliance

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**Charles K. Bridges, CPA, CGFM**  
**Assistant Director**



**Edward Burr, CPA, CGFM**  
**Assistant Director**

This section conducts financial and compliance audits of all state departments, agencies, and institutions.

A major endeavor of the financial and compliance section was the *Single Audit of the State of Tennessee* for the year ended June 30, 2000. This audit covered the operations of the state as a whole and was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. A significant part of this project was the audit of the *Tennessee Comprehensive Annual Financial Report*, which covers all the state's funds and account groups, including college and university funds.

In addition to the single audit report, separate audit reports were issued on the Department of the Treasury, the Office of the Comptroller of the Treasury, departments administering major federal programs, and units of the government not subject to the control of the centralized accounting system: state universities, community services agencies, the Tennessee State School Bond Authority, the Tennessee Local Development Authority, the Tennessee State Veterans' Homes Board, and the Tennessee Housing Development Agency. The smaller departments and agencies of the government and the community colleges, technical institutes, and state technology centers are audited on a biennial cycle.

The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the

Single Audit Act as amended in 1996 and Office of Management and Budget Circular A-133. They do, however, serve as segments of the organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

All financial and compliance audits are conducted in accordance with generally accepted government auditing standards. The section performs the following general procedures as part of the financial and compliance audit process:

- Reviews the working papers from previous audits and applicable regulations, rules, policies, procedures, laws, and legal opinions.
- Considers the internal control at the entity, including a review of information systems, and determines the nature, timing, and extent of tests to be performed.
- Reviews the original budget and subsequent budget revisions and compares them to actual revenues and expenditures.
- Obtains and analyzes explanations for significant variances.
- Reviews the internal control in the computerized accounting and management information systems.
- Tests to determine the appropriateness of expenditures and the entity's accountability for revenues and cash receipts.
- Tests to substantiate assets, liabilities, and fund balances.
- Reviews federal and state grants to determine the entity's accountability for grant funds and compliance with applicable laws, rules, and regulations.
- Reviews management's representations regarding financial transactions, supporting accounting data, and other disclosure items.
- Evaluates all evidence obtained during the audit process in order to formulate an opinion on the financial transactions and to prepare findings on significant problems.

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**Results of Audits**

During the year ended June 30, 2001, the division published 65 financial and compliance audit reports. On June 30, another 82 audits were in progress. The following are summaries of some of the published audit reports.\*

\*Findings repeated from prior audits are marked with an asterisk.

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**Single Audit of the State of Tennessee**

The Single Audit of the State of Tennessee for the year ended June 30, 2000, was conducted in accordance with Office of Management and Budget (OMB) Circular A-133. The *Single Audit Report* reflected federal awards of \$6.3 billion. The results of the audit of compliance of the State of Tennessee with the compliance requirements applicable to each of the state's major federal programs indicated that the State of Tennessee did not comply with requirements regarding Activities Allowed or Unallowed, Eligibility, and Special Tests and Provisions that are applicable to its Medical Assistance Program.

The noncompliance with Eligibility requirements was also considered to be material to the general-purpose financial statements of the State of Tennessee. The results of auditing procedures also disclosed other instances of noncompliance with compliance requirements applicable to major federal programs that are required to be reported in accordance with OMB Circular A-133.

As a result of testing the state's compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs, costs of \$75,485,525 were questioned for the year ended June 30, 2000.

The consideration of internal control for the State of Tennessee disclosed numerous reportable conditions, including several that were considered to be material weaknesses in relation to the state's general-purpose financial statements and/or major federal programs.

The single audit included an audit of the state's general-purpose financial statements. This audit resulted in an unqualified opinion on the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2000. The audit also determined that the Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

**State Departments and Agencies**

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**Tennessee Arts Commission**  
For the Years Ended June 30, 1999,  
and June 30, 1998

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**Controls Were Violated With an Improper Payment for Artifacts**  
The Tennessee State Museum did not follow proper control procedures when the Tennessee State Museum Foundation was reimbursed for items the Foundation did not purchase.**Federal Funds Not Drawn Down Timely \***

The commission did not draw down federal funds timely as required by the Department of Finance and Administration's Policy 20. The commission draws down federal funds monthly, not weekly, as the policy requires.



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**Department of Children's Services**

For the Year Ended June 30, 2000

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**Children's Services Inappropriately Requested and Received Reimbursement From TennCare for Ineligible Children \***

As noted in the prior three audits, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, as noted in the prior audit, Children's Services is also billing for other categories of ineligible children. This includes children not in state custody; children in state custody but on runaway status; children in the Hometies program; individuals over the age of 21; and children under the age of three. In addition, there were problems with billings for hospitalized children and for drug and alcohol treatment.

**Children's Services Does Not Have a Reasonable System to Determine Medical Treatment Costs Associated With Providing Services to Children in the State's Care \***

As noted in the prior two audits, the Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for these children. According to Medicaid/-TennCare regulations, TennCare reimbursements must be based on actual costs.

**Case Files Do Not Contain Adequate Documentation \***

The department did not have adequate documentation in each child's case file showing the services provided to the child, the progress of the child, or the movement of the child. In 26 of 100 case files tested (26%), there were substantial gaps in time between case recordings documenting the progress of the children. Time lapses between entries in case notes ranged from 61 to 565 days.

**The Department Did Not Properly Administer and Account for the Trust Fund Accounts of Children Receiving Federal Benefits \***

As noted in the prior two audits, the department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits.

**The Accounting for the Social Security Administration Trust Funds Is Not Done Monthly \***

As noted in the prior three audits, the accounting for the Social Security Administration trust funds is not done monthly for each child. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care.

**The Case Management Systems Have Not Ensured Data Integrity and User Accountability \***

As noted in the five previous audits, the Client Operation and Review System (CORS) and its replacement, the Tennessee Kids Information Delivery System (TNKIDS), which record the profiles of children in state custody and matches these with the facilities providing care, do not ensure data integrity and user accountability. A review of the TNKIDS system disclosed that all users did not enter their own information during the audit period; any user with update access can add, change, or delete client information across the state without any record of the change; and search functions could be bypassed, increasing the risk for duplicate information.

**Overpayments Totaling at Least \$545,083 Were Made to Foster Parents \***

As noted in the six previous audits, case managers did not update the Children's Plan Financial Information System (ChipFins) when changes in status for foster children occurred, resulting in overpayments totaling \$545,083 made to foster parents.

**Uncollected Overpayments Due From Foster Care and Adoption Assistance Parents Totaled at Least \$1,255,660 \***

As noted in the six previous audits, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents.

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**Tennessee Commission on Children and Youth**

For the Years Ended June 30, 1999, and June 30, 1998

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**Controls Over Performance Evaluations Need Strengthening**

The Tennessee Commission on Children and Youth did not comply with state personnel policies requiring periodic employee performance evaluations.

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**Department of Commerce and Insurance**

For the Years Ended June 30, 1999, and June 30, 1998

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**Examination Procedures Were Not Followed and Additional Procedures Are Needed**

In 1993, examiners did not properly verify the securities of Franklin American Life Insurance Company. The examiners' failure to note the lack of a safekeeping agreement, in regard to those securities, extended the period of a fraudulent scheme involving the insurance company's securities.

**Desk Examinations Need Improvement and Additional Procedures**

The desk examinations performed on annual and quarterly financial statements of Franklin American Life Insurance Company did not raise appropriate questions regarding the company's unusual volume of trades and reported returns on its investments.

**"Target Examination" Procedures Were Not Followed**

None of the work performed by insurance division staff on its 1996 target examination of Franklin American Life Insurance Company was documented as required.

**Documentation Department-wide Needs Improvement**

Reviews of acquisition and merger forms; meetings, telephone calls, and other correspondence; and the reasons for the department to place Franklin American Life Insurance Company in administrative supervision were not documented.

**Need to Have Written Procedures for the Regulatory Board Annual Report**

The Division of Regulatory Boards does not have written documentation of the procedures employed to produce the annual report of each board's fees collected, expenditures, and reserve balances.

**Need to Improve Monitoring of Modular Housing Compliance With Codes**

The Codes Enforcement section of the Division of Fire Prevention is not adequately monitoring compliance with modular housing policies and procedures.

**Documentation of Manufactured Housing Inspections Is Insufficient**

The Codes Enforcement section of the Division of Fire Prevention is not enforcing federal and state policies and procedures for documentation of manufactured housing inspections.

**Motor Vehicle Commission Policies Do Not Comply With State Law**

The commission's policies and procedures make an unauthorized exception to state law when issuing motor vehicle dealership licenses in some counties.

**Consumer Affairs Division Should Improve Complaint Follow-up Time**

The division is not sending letters to respondents within the time frame specified in its policies and procedures for following up consumer complaints.

**The Annual Report to the Governor Should Be Issued in Compliance With State Law**

The department's annual report is not issued in the manner prescribed by state law.

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**Tennessee Corrections Institute**

For the Years Ended June 30, 2000, and June 30, 1999

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**Local Correctional Facilities Not Inspected on Time\***

The institute did not inspect all facilities annually and reinspect the required facilities within 60 days.

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**Tennessee District Attorneys General Conference**

For the Years Ended June 30, 1999, and June 30, 1998

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**The District Attorneys General's Offices Do Not Maintain Adequate Leave Records and Allow Employees to Take Unearned Leave\***

At least three of the district offices do not maintain adequate leave

records or do not have an adequate leave policy. The conference office made 19 overpayments for a total of \$11,882.19 to employees who took unearned leave.

**The Conference Office Does Not Require Verification of Receipt for Purchases Made by the Judicial Districts, Resulting in Overpayments to Vendors**

As a result of not requiring verification of receipt of goods, the conference office issued many duplicate payments and overpayments to vendors for goods and services. During fiscal years ended 1999 and 1998, vendors voluntarily made 29 refunds totaling \$10,499.90, and the conference office cancelled 136 payments totaling another \$21,876.55.

**Controls Over Property and Equipment and Leased Office Space Were Inadequate\***

The conference office does not have adequate controls over property and equipment and leased office space. Many equipment items were not properly tagged, could not be located, or did not have the correct location listed on the Property of the State of Tennessee (POST) listing. The conference office does not have adequate procedures concerning the office space that the district attorneys general lease. In some cases, the conference office and the district attorneys general have not entered into formal lease agreements for the office space currently leased.

**The Title VI Implementation Plan Was Not Submitted in a Timely Manner**

The conference office did not submit the fiscal year 1999-2000 Title VI Implementation Plan until February 11, 2000, making it 226 days late. *Tennessee Code Annotated*, Title 4, Chapter 21, Section 901, requires that applicable governmental entities submit a Title VI Implementation Plan to the Comptroller of the Treasury by June 30 of each fiscal year.

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**Department of Education**  
For the Year Ended June 30, 2000

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**Expenditures Were Not Always Approved by an Authorized Employee**

Expenditures were not always approved by an authorized employee. Several expenditures were approved by an employee who was not included on the signature authorization forms, and other expenditures were approved using a stamp of the Director of Accounts' signature that was not initialed by the employee who used the stamp.

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**Department of Environment and Conservation**  
For the Years Ended June 30, 1999, and June 30, 1998

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**Weak Controls Over Cash Receipts at the State Parks\***

At Paris Landing State Park, Roan Mountain State Park, Bicentennial Mall State Park, and Radnor Lake State Natural Area, cash receipting duties are not properly segregated, and cash is not adequately safeguarded.

**Proper Purchasing Procedures Not Followed**

At Paris Landing State Park, Roan Mountain State Park, Bicentennial Mall State Park, and Radnor Lake State Natural Area, invoices are being split into purchase order amounts of not more than \$400 to circumvent the approval and bid requirements.

**Inadequate Accountability Over Equipment**

During the audit period, the department reported that 280 items of its equipment had been lost or stolen. The department did not always remove these items from the Property of the State of Tennessee system timely. Also, the department does not keep accurate records about the location and identifying information of equipment.

**Weak Controls Over the Cash-Receipting Process\***

In some of the environmental divisions, periodic reconciliations are not always performed by someone independent of the cash-receipting process.

**Financial Responsibility Rules Not Enforced\***

The Division of Underground Storage Tanks does not enforce its rules requiring tank owners or operators to demonstrate financial responsibility for cleanup costs associated with petroleum leaks.

**Inadequate Controls Over Underground Storage Tank Fund Expenditures\***

Neither inspections of cleanup sites nor field audits of contractors' invoices are routinely performed to ensure that contractors are not abusing the reimbursement system. The Division of Underground Storage Tanks is not processing requests for reimbursement timely and is not maintaining necessary supporting documentation.

**Procedures for Delinquent Accounts Not Followed\***

The Division of Water Pollution Control does not always follow the department's procedures for billing and collecting delinquent accounts.

**State Policy on Providing Housing Not Followed**

An employee lived in state-owned housing and was paid a housing allowance for approximately three years. Another employee was paid a housing allowance for approximately five years, although his job duties did not justify it. The list of employees receiving state-owned housing or a housing allowance contained errors.

**SPECIAL INVESTIGATIONS****Inadequate Controls Over Environmental Specialists**

Violations of departmental policies and procedures in regard to a former environmental specialist were noted. Two of 18 property files selected could not be located. Nine of 18 property files selected did not contain the required documentation. Three checks for fee

payments were received by the former environmental specialist and were not receipted or deposited timely.

#### **Inadequate Controls Over Golf Pro Shop Activities**

Internal controls for the golf pro shop at Paris Landing State Park were inadequate. The noted deficiencies limited management and staff's ability to prevent and detect errors and irregularities in a timely manner in the ordinary course of their work. All three cashiers pled guilty to theft of property charges.

#### **Inadequate Controls Over Marina Financial Transactions**

Internal controls for financial transactions at the marina at Paris Landing State Park were inadequate. The noted deficiencies limited management's abilities to detect errors and irregularities in a timely manner in the ordinary course of their work. The marina supervisor resigned effective March 1, 2001.

#### **Property Losses, Possible Malfeasance, and Resolution of Investigations Not Reported to the Comptroller of the Treasury**

The restaurant and inn manager at Paris Landing State Park did not take appropriate steps to ensure that the Comptroller's Office was informed of property losses, possible malfeasance, and resolution of investigations. As a result, the amount of money lost and the hours falsified could not be determined.

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### **Department of Finance and Administration**

For the Year Ended June 30, 2000

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#### **The Tennessee Insurance System Has Significant Problems Which Caused TIS and STARS Not to Reconcile\***

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled.

#### **Top Management Must Address TennCare's Administrative and Programmatic Deficiencies\***

The audit revealed many serious internal control deficiencies that have caused or exacerbated many of the TennCare program's problems.

#### **The Division of Accounts' Post-Audit Review Process Needs Improvement**

Detailed testing of disbursement vouchers was not performed for each post-audit agency, and reviews of internal controls have not been performed once every three years as required by policy.

#### **TennCare Management Information System Lacks the Necessary Flexibility and Internal Control\***

Management of the Bureau of TennCare has not adequately addressed critical information system internal control issues. This has contributed to a number of other findings in this report.

**TennCare Eligibility Verification Procedures Are Not Adequate\***

For the past six years, TennCare has failed to implement effective eligibility procedures for uninsured and uninsurable enrollees. TennCare's eligibility redeterminations were not performed adequately, consistently, or timely. TennCare had no eligibility policies and procedures manual. There was inadequate monitoring of SSI recipients. TennCare has inadequate staff to verify information of uninsurable application.

**TennCare Should Develop Written Procedures to Reflect the Eligibility Procedures Used**

The Bureau of TennCare has not developed or distributed written policies and procedures that address and reflect eligibility procedures that are currently in place. For example, the Bureau has several adverse court orders, which hinder TennCare from adhering to the previously established TennCare rules and from adhering to federal regulations. Although TennCare has changed its informal policies and procedures in light of court orders, the Bureau has not developed written procedures to reflect the policies and procedures used.

**TennCare Made Payments on Behalf of Incarcerated Adults Resulting in \$5,710,336 in Federal Questioned Costs\***

TennCare does not have adequate controls in place to prevent capitation payments to managed care organizations and behavioral health organizations when enrollees become incarcerated. In addition, TennCare does not have a process to retroactively recover all capitation payments from the MCOs when enrollees are incarcerated.

**The TennCare Bureau Did Not Amend Its Cost Allocation Plan, Which Resulted in Questioned Costs of \$18,320,757\***

The Medicaid cost allocation plan has not been amended to cover the administrative costs associated with the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver program.

**Communication Between the Department of Children's Services and TennCare Has Been Inadequate, Resulting in Questioned Costs of Over \$4 Million\***

TennCare has paid the Department of Children's Services for services that were outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 2000.

**TennCare Paid the Department of Children's Services Over \$13 Million for Services That Are Covered by and Should Be Provided by Behavioral Health Organizations**

TennCare has paid the Department of Children's Services for services that they also paid the behavioral health organizations to provide.

**TennCare-Related Activities at the Department of Children's Services Were Not Adequately Monitored\***

TennCare has not adequately monitored the Department of Children's Services. Although TennCare recognized the need for a strong monitoring effort and has contracted with the Department of Finance and Administration to provide this service, the monitoring effort still needs improvement.

**Monitoring of the Medicaid Waiver for the Home and Community Based Services for the Mentally Retarded Was Not Adequate\***

The TennCare Bureau's monitoring of the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled under Section 1915(c) of the Social Security Act (HCBS waiver) is inadequate to provide the federally required assurances of health and welfare and of financial accountability.

**TennCare Did Not Ensure Adequate Monitoring of the Medicaid Home and Community Based Services\***

The TennCare Bureau did not ensure that the Division of Mental Retardation Services complied with its contract monitoring requirements.

**TennCare Made Payments on Behalf of Full-Time State Employees, Resulting in Questioned Costs of \$367,476**

TennCare paid over \$500,000 in capitation payments on behalf of full-time state employees who are classified as uninsured or uninsurable in the TennCare Management Information System. These payments were made because TennCare has not used controls to prevent or recover payments on behalf of state employees.

**TennCare Did Not Recover Over \$800,000 in Payments Made on Behalf of Deceased Enrollees\***

Procedures for deceased enrollee payment recovery need improvement. TennCare does not retroactively recover payments made for deceased individuals that were made over one year before the date of discovery of death.

**Financial Integrity Act Reports Did Not Include TennCare**

Although executive Order 23 was issued on October 19, 1999, to transfer the TennCare program and its related functions and administrative support from the Department of Health to the Department of Finance and Administration, the reports filed by the department did not include TennCare's operations.

**TennCare Has Not Ensured an Adequate Process Is in Place for Approval and Review of Services for the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver\***

TennCare has not ensured the Division of Mental Retardation Services (DMR) appropriately reviews and authorizes allowable



services for recipients of the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver. In addition, DMR does not adequately document the review and approval of services on the Individual Service Plan.

**TennCare Did Not Comply With the Special Terms and Conditions of the TennCare Waiver\***

Management did not comply with 9 of 24 applicable special terms and conditions (STCs) of the TennCare Waiver, and controls over compliance with the STCs need improvement. Federal financial participation in the program is contingent upon compliance with the STCs.

**Internal Control Over Provider Eligibility and Enrollment Was Not Adequate to Ensure Compliance\***

TennCare had numerous internal control weaknesses and noncompliance issues related to provider eligibility and enrollment including inadequate provider agreements, not reverifying Managed Care Organization and Behavioral Health Organization providers, and not following departmental rules.

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**Department of Financial Institutions**

For the Years Ended June 30, 1999, and June 30, 1998

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**The Department of Financial Institutions Has Not Fully Complied With Departmental Policies and Procedures and Federal Deposit Insurance Corporation Examinations Policies**

The department's examination working papers did not adequately document procedures performed in support of bank reports.

**The Department's Practices Regarding Conflicts of Interest May Not Comply With State Law**

The department's ethics practices apparently conflict with requirements of state law concerning indirect ownership of financial institutions' stocks.

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**Department of General Services**

For the Years Ended June 30, 1999, and June 30, 1998

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**Security Guards Were Allowed to Work Excessive Hours**

During the year ended June 30, 1999, security guards worked excessive hours in 136 instances. Continuous hours worked ranged from 14 to 48 hours.

**Improved Controls Over Program Changes in the Tennessee On-Line Purchasing System Are Needed**

Changes are being made directly to the TOPS database using the Order Fix program instead of using properly authorized program changes.

**Documentation to Support Access to Tennessee On-Line Purchasing System Was Not on File\***

Proper authorization for departmental users' access to TOPS was not on file at the Department of General Services.

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**Department of Health**

For the Year Ended June 30, 2000

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**Incorrect Grant-Funding Information in the State's Property System\***

The department did not record correct grant information for equipment items that were federally funded.

**No Procedures to Detect Dual Participation in the WIC and CSFP Programs\***

The department has no procedures to ensure that dual participation between the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Commodity Supplemental Food Program (CSFP) will be detected.

**Subrecipients' Audit Reports Not Adequately Monitored\***

As noted in the eight prior audits, the subrecipients' audit reports were not received timely; the reports did not contain the required schedules; and audit exceptions noted in the reports were not followed up or resolved timely.

**Improper Employer-Employee Relationships\***

The department has established improper employer-employee relationships through contracts with community services agencies, human resource agencies, and other nonprofit organizations.

**Inadequate Contract Controls\***

The department did not approve contracts before the beginning of the contract period.

**Quarterly Expenditure Reports Not Monitored**

The department did not ensure that subrecipients' quarterly expenditure reports were adequately monitored.

**Subrecipients' Cost Allocation Plans Not Reviewed**

The department did not review subrecipients' cost allocation plans.

**No Reconciliation Process to Ensure Funds Received Are Deposited**

The South Central Regional Office does not reconcile cash receipts with bank deposits.

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**Office of Legislative Administration**

For the Period July 1, 1993, through June 30, 1999

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**Written Accounting Policies and Procedures Not Fully Established and Approved\***

The executive director did not ensure that written accounting policies and procedures addressing all accounting functions were developed and approved by the Joint Legislative Services Committee.

**No Written Policies and Procedures for the Legislative Computer System\***

The office has not developed written policies and procedures for computer functions.

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**Local Government Group  
Insurance Fund**

For the Year Ended June 30, 2000

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**The Tennessee Insurance System Has Significant Problems  
Which Caused TIS and STARS Not to Reconcile\***

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled.

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**Department of Revenue**

For the Year Ended June 30, 1999

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**Balancing Problems Are Still Occurring in RITS\***

Out-of-balance situations are occurring with the Revenue Integrated Tax System (RITS). The debits and the credits of the Internal Tax Change columns did not balance 87% of the time.

**Problems With RITS Delayed Disbursements to Other States for  
International Registration Plan Taxes\***

The department's International Registration Plan tax balances contain amounts that are owed to other states and have not been disbursed in a timely manner.

**Management Information Systems Policies and Procedures  
Manuals Need to Be Updated\***

The Management Information Systems policies and procedures manuals were not up-to-date. The manuals did not contain the necessary policies and procedures for RITS, which was implemented in December 1995.

**Improved Controls Over Program Changes in MIS Are Needed\***

Computer programs called SPUFIs (Sequential Processing User File Input) are being used by Management Information Systems staff to correct taxpayer accounts directly in RITS rather than through authorized and documented transactions.

**The Exceptions Processing Unit Does Not Always Deposit  
Remittances Timely**

Receipts are not always deposited timely. Testwork revealed remittances outstanding from four to seven business days after receipt.

**The Department Did Not Properly Record New Corporations Into  
RITS**

New corporations identified by the Secretary of State's office were not always entered correctly into RITS.

**The Department Does Not Properly Track and Monitor Refund  
Claims in Order to Minimize Interest Paid\***

Thirty-four of 60 refund claims over \$50,000 tested took from 46 to 379 days to process before being turned over to the Attorney General's office for signatures.

**Controls in the Tax Enforcement Division Need Improvement\***

Diaries have not been consistently utilized, and cases are not always followed up in a timely manner.

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**Department of State**

For the Years Ended June 30, 1999,  
and June 30, 1998

**Cash-Receipting Function Not Adequate\***

No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from assigning the same receipt number to several documents. The CMS simultaneously documents services provided by the department and receipts the fees collected. If different receipt numbers are not assigned for each service performed, services could be documented even though the proper fee had not been received, and the department could lose revenue.

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**Tennessee State Veterans' Homes Board**

For the Year Ended June 30, 1999

**Accounts Receivable Practices Are Not Adequate\***

The Tennessee State Veterans' Homes Board's accounts receivable balances do not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans. The estimate for uncollectible accounts is not based on actual receivables. In addition, the management company has not appropriately written off uncollectible receivable accounts.

**Controls Over Fixed Assets Are Not Adequate\***

Annual inventories have not been properly performed, equipment records are inadequate to integrate annual inventory results into the general ledger, a separate and distinct property officer has not been designated, and a clear capitalization policy is not in place.

**Cash-Receipting Controls and Purchasing Controls Need Improvement\***

Cash-receipting duties are not segregated to provide good internal control. No one verifies the sequence of receipts. Receipt books used are not always prenumbered. Purchasing controls are not segregated.

**Controls Over Payables Are Not Adequate**

Payments were not made in a timely manner and the verification of receipt was not consistently documented.

**Foundation Donations Are Not Properly Receipted Or Deposited Timely**

A receipt is not consistently completed for donations to the foundation before the funds are deposited. Funds are not deposited within a reasonable time period.

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**Teacher Group Insurance Fund**

For the Year Ended June 30, 2000

**The Tennessee Insurance System Has Significant Problems Which Caused TIS and STARS Not to Reconcile\***

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled.

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**Department of  
Transportation**

For the Year Ended June 30, 2000

**Departmental Policies and Procedures to Ensure Compliance  
With Davis-Bacon Not Always Followed\***

The department has established policies and procedures to help ensure compliance with the Davis-Bacon Act. However, department personnel do not always adhere to these policies and procedures. Interviews with laborers and mechanics to help ensure contractors' wage compliance were not always conducted.

**Improper Administration, Direction, Supervision, and  
Monitoring of Subrecipient Operations**

On November 8, 2000, the Department of Transportation Internal Audit Office issued a Special Report: Governor's Highway Safety Office. The special report revealed that the Governor's Highway Safety Office did not properly administer, direct, supervise, or monitor many aspects of the operations of its subrecipients.

**GHSO Operated an Unauthorized Departmental Bank Account  
and Made Improper Payments From the Account**

On November 8, 2000, the Department of Transportation Internal Audit Office issued a Special Report: Governor's Highway Safety Office. The report disclosed that the Governor's Highway Safety Office (GHSO) established an unauthorized departmental bank account which was not adequately controlled, and the GHSO could not provide supporting documentation for all transactions in the account.

**Surety Bond for Overweight and Overdimensional Permits Not  
Required\***

The department does not ensure that potential Overweight and Overdimensional Permit holders provide a surety bond or furnish satisfactory proof of solvency as required by *Tennessee Code Annotated*, Section 55-7-205(g).

**Inspections of Bridges and Other Structures Are Not Always in  
Accordance With Departmental Procedures\***

The department has established policies and procedures for inspecting bridges and other structures. However, department personnel do not always adhere to these policies and procedures. The proper inspection was not always performed, and inspections were not always performed timely.

**DOT STARS Disaster Recovery Documentation Is Inadequate\***

The disaster recovery plan and the documented results of mock disaster testing for the Department of Transportation State Transportation Accounting and Reporting System (STARS) are insufficient.

## Universities, Colleges, Technical Institutes, and Technology Centers

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**Austin Peay State University**

For the Year Ended June 30, 2000

**Differences Between University Records and NSLDS Not Resolved**

Loan information recorded on the university's records did not always agree with information reported on the National Student Loan Data System (NSLDS).

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**Pellissippi State Technical Community College**

For the Years Ended June 30, 1999, and June 30, 1998

**Refunds Are Not Always Calculated for Students Who Unofficially Withdraw**

The college does not always perform necessary refund calculations for students who unofficially withdraw from school because faculty members do not consistently report the students' last date of attendance. The failure to perform refund calculations for students who unofficially withdraw could result in an overaward to some recipients.

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**Tennessee State University**

For the Year Ended June 30, 2000

**The University Did Not Report Pell Payment Data to the Department of Education (ED) Within the Required Time Frame**

Pell Payment Data was not reported to the federal government within 30 days of disbursement to students as required. Discussions with university personnel revealed that the university had not sent any Pell Payment Data for the spring and summer 2000 terms. The Financial Aid Office was unaware that the Pell Payment Data had not been reported until ED contacted the office in October 2000 because the university's authorization level was out of balance with the payments that had been reported. If the problems cannot be resolved, the university may be unable to receive full reimbursement for all of the Pell aid that was awarded.

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**Tennessee Technology Center at Knoxville**

For the Years Ended June 30, 1999, and June 30, 1998

**An Annual Inventory of Equipment Was Not Performed**

The center did not perform an equipment inventory during the 1997, 1998, or 1999 fiscal years. Without a timely equipment inventory, missing, damaged, or obsolete equipment items may not be removed from the center's equipment listing. Incorrect financial reporting could result.

**Student Financial Aid Refunds Were Not Calculated Correctly**

Not all student financial aid refunds tested at the center were calculated correctly. The failure to perform refund calculations as described in federal student financial aid regulations could result in an overaward to some recipients or in a failure to make necessary refunds.

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**The University of Tennessee**

For the Year Ended June 30, 2000

**Failure to Properly Calculate Title IV Financial Aid Refunds**

The University of Tennessee, Knoxville campus, did not calculate all Title IV financial aid refunds according to federal regulations. The university incorrectly calculated these Title IV refunds because of an error in its computerized refund worksheet.

**Effort Certification Reports Should Be Prepared on a Timely Basis**

Effort certification reports are not being prepared and returned to the controller's office on a timely basis. These reports document payroll costs charged to federally sponsored grants and contracts.

**Single Audit Requirements Should Be Communicated to Federal Subrecipients**

The university's contracts with subrecipients of federal funds do not always include the single audit requirements described in Office of Management and Budget Circular A-133.

**Failure to Adequately Reconcile Accounts Receivable**

The University of Tennessee at Chattanooga and the University of Tennessee's Memphis campus do not properly reconcile student accounts receivable balances to the university's general ledger. At June 30, 2000, unreconciled balances at Chattanooga and Memphis were \$43,252.13 and \$37,765.10, respectively.

## **Community Services Agencies**

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**Mid-Cumberland  
Community Services Agency**

For the Year Ended June 30, 1999

**Controls Over the Execution of Contracts Need Improvement**

The agency did not obtain or maintain properly executed contracts for vendors in the Flexible Funding for Families program.

**Cash Receipts Not Promptly Deposited**

Not all cash receipts tested were deposited within the time limits established in the agency's policies and procedures.



**Ron Paolini, CPA, CGFM**  
**Assistant Director**

The TennCare section of the Division of State Audit, under an agreement with the Department of Finance and Administration, performs certain audit and rate-setting functions for the state's TennCare program.

A staff of 17 professional auditors and two nurse auditors perform the following functions:

- Cost settlements for state operated Development Centers that provide services to mentally retarded recipients.
- Rate setting and audit for nursing homes and Intermediate Care Mental Retardation facilities that participate in the Medicaid Program.
- Examinations of TennCare Managed Care Organizations (MCOs) and Behavioral Health Organizations (BHOs) that contract with the state to provide medical services under the program. The examinations are performed jointly with TennCare staff of the Department of Commerce and Insurance.
- Compute reimbursement settlements and prospective rates for Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC) as required by the Benefits Improvement and Protection Act of 2000 (BIPA).



- Clinical monitoring of the states Mental Retardation Waiver project.
- Compute Certified Public Expenditures (CPE) for public hospitals. CPE is defined as unreimbursed TennCare costs. The TennCare waiver provides for additional federal funding depending on the level of CPE in the public hospitals.

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#### **Audits of Nursing Facilities**

In fiscal year ended June 30, 2001, the TennCare section completed four audits of nursing facilities and intermediate care facilities. The audits reported findings such as

Nonallowable expenses  
Inaccurate accumulation of patient days  
Excessive charges to Medicaid residents

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#### **Audits of TennCare MCOs and BHOs**

In fiscal year ended June 30, 2001, the TennCare section completed two examinations of MCO and BHO contractors. Examples of significant findings reported included

Deficiencies in claims processing system  
Deficiencies in provider contract language

The state also performs quarterly monitoring of one of the MCOs that is currently under state operation.

In addition to audit and rate setting, the TennCare section also provides some financial and budgeting support to the program. For example, nursing home payments are tracked so that the state can better prepare its budgets.



**Barbara K. White, CPA, CGFM**  
**Assistant Director**  
**TennCare-Special Projects**

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare projects. Two such projects are currently in progress:

- The state, under a consent decree with the federal court, has agreed to comply with certain requirements with respect to TennCare enrollee grievances and appeals. The TennCare managed care contractors and their providers are also subject to the consent decree, so it has widespread implications. The agreement, commonly referred to as the “Grier Consent Decree,” became fully effective on November 1, 2000.

The Grier Consent Decree required the state to enter into an agreement with the Comptroller’s Office to monitor all aspects of compliance with the order and to report quarterly. The areas to be addressed specifically in the report are as follows:

- (a) Compliance with notice and appeal procedures when the defendants or others acting on their behalf propose to take any adverse action affecting inpatient or residential behavioral health services.
- (b) Compliance with requirements that provide special notice and appeal protections for children in state custody.
- (c) The consistency and rigor of the defendant state officials’ actions to enforce the terms of this order against their contractors.

- (d) The extent to which the defendant state officials are analyzing data to identify patterns of contractor noncompliance with federal or state requirements and taking appropriate action to correct systemic violations or other problems adversely affecting beneficiary care.
- (e) Compliance with the special provisions pertaining to pharmacy services.
- (f) The adequacy of beneficiary notices provided by state officials and their contractors.
- (g) Procedures to monitor compliance with requirements for the public posting of notices informing beneficiaries of the rights and protections incorporated in this order.
- (h) Address other selected areas as considered necessary.

Quarterly reports through March 31, 2001, have been completed and the report for the quarter ending June 30, 2001, is nearing completion.

- The Division of State Audit continues to serve as staff to the TennCare Prescription Drug Utilization Committee. The committee reviews information, as it deems appropriate, concerning prescriptions made to TennCare enrollees relative to potential drug interactions, abuse of prescription drugs, or other related matters.

## Performance

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**Deborah V. Loveless, CPA, MBA, CGFM**  
**Assistant Director**

A performance audit is an independent examination of the extent agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management

- by assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of management's organization and use of resources,
- by developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agency's operations, and
- by providing pertinent program and financial data about the agencies.

Most of the performance audit section's workload is performance auditing directed by the Tennessee Governmental Entity Review Law, commonly known as the Sunset Law (Section 4-29-101 et seq., *Tennessee Code Annotated*). This law requires that each agency, board, commission, or other entity be reviewed at least once every eight years by the legislative Joint Government Operations Committee to determine whether that entity should be continued, restructured, or terminated.

Audit staff focus their efforts on the audits of major entities. In the year ended June 30, 2001, the performance audit section released

eight audit reports and one special report and had ten projects in process at year-end. The Government Operations Committees held 16 public hearings on 51 entities in the year ended June 30, 2001. At these hearings, performance audit staff presented audit reports covering 6 entities. Another 45 entities submitted written responses to staff-prepared questions based on their statutory authority and responsibility. In addition, the committee received updated information requested in prior-year public hearings on two entities.

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## **Audit Process**

Performance audits are conducted in accordance with generally accepted government auditing standards. Audits progress through six phases: planning, detailed audit field work, report writing, comments from agency management, publication of the final report, and presentation of the final report at a legislative hearing. Performance auditing includes the following activities:

- Review of relevant state and federal laws, court cases, Attorney General's opinions, executive orders, rules, and regulations.
- Review of the agency's procedures, plans, and policies.
- Examination of the agency's records, files, and correspondence.
- Interviews with staff of the audited agency and related agencies.
- Observation of the agency's operations and activities.
- Analysis of the agency's revenue and expenditure data.
- Analysis of the agency's program data, performance measures, and reported results.
- Review of comparative data from other states.
- Surveys of individuals, agencies, and organizations served or affected by the agency.
- Tests for compliance with significant legal and administrative requirements.
- Evaluation of the extent to which the agency achieved desired results at the lowest reasonable cost.
- Recommendations of possible alternatives for legislative or administrative action that may result in more efficient and effective accomplishment of the agency's legislative mandate.

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## **Results of Audits**

The following are summaries of the results of the eight audit reports and one special report released during the year ended June 30, 2001.\*

\* Findings repeated from prior audits are marked with an asterisk.

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**University of Tennessee  
Board of Trustees**  
July 2000

**The UT System Needs to Continue Minority Recruitment Efforts**

UT has not yet attained its goals for enrolling undergraduate minority students at UT–Knoxville and UT–Martin and has not maintained its goal for the Health Sciences Center at Memphis. In addition, a review of campus efforts to recruit minority staff indicates that although UT–Chattanooga has exceeded its goals for hiring administrators, faculty, and professionals, UT–Knoxville has met its goals for faculty only, and UT–Martin has only met its goal for the hiring of professionals.

**OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: the peer selection process, comparisons of UT campuses to their peer institutions, efforts to improve persistence to graduation rates, remedial and developmental courses, monitoring of sole-source contracts, transferring course credits from community colleges to universities, academic program review, technological advances on campus, and students' use of career services.

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**Title VI Activities of the  
Tennessee Human Rights  
Commission**  
January 2001

**The General Assembly Needs to Review the Commission's  
Authority and Responsibilities in Regard to Federal Title VI and  
State Statutes**

The commission has undertaken a number of tasks related to Title VI and *TCA*, Sections 4-21-904 and 905, including receiving complaints, reviewing implementation plans, providing technical assistance, and assisting private and public agencies in meeting their Title VI responsibilities. However, not all of these tasks are specified in state law.

**ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider amending Section 4-21-901, *Tennessee Code Annotated*, to require agencies to submit their annual Title VI compliance reports and implementation plan updates to the Human Rights Commission. The General Assembly may also wish to consider amending Section 4-21-901 or adding a new section setting forth specific Title VI responsibilities of the Human Rights Commission.

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**Tennessee Department of  
Transportation  
Right-of-Way Division**  
February 2001

**The Division Failed to Take Timely Action to Remove a Right-of-  
Way Acquisition Consultant Firm With Problems From the  
Qualified List**

The division had written evidence as early as 1997 that a right-of-way acquisition consultant firm had problems but contracted with the firm for yet another project in June 1999 and did not remove the firm from the qualified bid list until October 1999.

**The Division Needs to Formalize and Improve Its Process for  
Monitoring the Performance of Right-of-Way Acquisition  
Consultants**

The department does not have a standard set of policies and procedures for the central office and regional offices to use in

monitoring right-of-way acquisition consultants who are representing the Department of Transportation in negotiations with property owners.

#### **The Division Needs a Uniform System for Processing Complaints**

The division does not have a uniform system to process complaints filed at the regional field offices or the central office. The division does not routinely log complaints and does not have a main repository documenting complaint information and status. The division does not have specified time frames to respond to and resolve complaints, methods for publicizing complaint procedures, or a process for regional field offices to report complaints to the central office.

#### **Personnel Files of Division Staff Did Not Always Contain Information Needed to Ascertain Qualifications and Performance**

In a review of staff personnel files, not all files contained documentation of staff qualifications, such as the appraiser certification required for some positions. In addition, not all division staff receive annual performance evaluations.

#### **Division Management Should Continue to Improve Their Process for Determining Whether to Use Consultants or In-House Staff**

The *Right-of-Way Procedures Manual* does not provide specific criteria (e.g., number of tracts, project complexity, regional staff productivity) for division management to use when deciding whether to use a consultant or in-house staff for a particular project. Recently, as a result of a department-wide assessment called Business Process Reengineering, division management decided to emphasize the use of internal staff rather than consultants and to review more closely each region's current and future workload prior to authorizing the use of consultants. The process could be further improved if, in addition to reacting to specific region requests, division management periodically assessed each region's staffing, current and anticipated project workload, and productivity.

#### **The Division Has Not Reviewed and Updated Its Policies and Procedures as Required**

The division does not perform annual evaluations of its policies and procedures manual to determine whether amendments or revisions are needed. In addition, the division does not always formally update its policies and procedures manual as changes are made, and its appraiser guidelines have not been revised since 1983.

#### **Most Landowners Surveyed Were Satisfied With the Right-of-Way Process; Some, However, Raised Serious Concerns**

Based on survey responses, individuals appeared to be satisfied with the treatment received from the department staff and with the right-of-way process. The majority of landowners indicated they were properly notified of the right-of-way public meeting and that the highway construction projects and right-of-way process were clearly described. Also, most of the respondents indicated they believe the

department treated them fairly. Despite the generally positive responses, however, several respondents made comments indicating that they believed they were not treated fairly, or that the right-of-way agent was not courteous and/or knowledgeable.

#### **OBSERVATIONS AND COMMENTS**

The audit also discusses the following items: the results of our review of files for a representative sample of tracts acquired by the division during fiscal years 1999 and 2000; the division's use of administrative settlements; problems with the division's TRIS computer system; the incomplete information available on tracts donated by landowners; the need for the division to improve its process for seeking out minority contractors; the results of our review of bid files; and interviews with division contractors.

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#### **Public Purchases**

February 2001

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#### **OVERALL CONCLUSIONS**

In evaluating the effect of the changes in purchasing limits on state government and state government vendors, we compared purchasing data for the year before and the year after the purchasing limits were changed; reviewed and analyzed the Purchasing Division's annual reports; reviewed other purchasing studies and surveys; and followed up with staff of the Purchasing Division and other state agencies and with representatives of minority business organizations. In brief, our overall conclusions are as follows:

- As intended, the changes in purchasing limits have increased the percentage of purchases (both number and dollar amount) that are awarded at the state agency level, rather than by the Department of General Services' Purchasing Division. Neither Purchasing Division staff nor other state agency purchasing staff interviewed could provide data to support their claims of an increase in efficiency or effectiveness at the state agency level. Data indicated that the Division of Purchasing processing times (which can also be affected by factors outside the division's control) decreased little in the year after the limits were changed.
- Based on a review of Tennessee On-Line Purchasing System (TOPS) information, the changes in purchasing limits appeared to have little effect on the awards of purchases to small and minority-owned businesses. The changes in purchasing limits also appeared to have little effect overall on how awards to minority vendors were distributed among the various ethnic groups.
- A review of State of Tennessee Accounting and Reporting System (STARS) payments indicates that the state appears to be meeting or exceeding the Board of Standards' goal to award 25% of purchases to small and minority businesses. However, information from TOPS indicates that non-minority small businesses receive most of the purchase orders (both number and dollar amount) awarded to small and minority businesses.



- The Department of General Services' Purchasing Division has taken a variety of actions to communicate with minority vendors and assist small and minority vendors who wish to do business with the state. Despite these activities, however, the percentage of active registered vendors who are classified as minorities has increased very little in recent years. In addition, African-American vendors who are registered with the state have a low response rate to bid solicitations.
- In reviewing and analyzing the purchasing data provided, we encountered several problems with the data—incomplete and overlapping information—that limit its usefulness.

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**Department of Mental  
Health and Mental  
Retardation and the Board  
of Trustees**

February 2001

**Many Mentally Ill Persons Must Be Cared For in State Hospitals  
Because of a Lack of Adequate Community Services**

The department has not ensured that community services adequately meet the needs of the mentally ill. As a result, some patients who are eligible for release stay in a mental institution longer than is necessary.

**A Significant Number of Individuals Incarcerated in County  
Jails Have a Mental Illness**

County jails are the least appropriate environment for the mentally ill. The level and quality of service vary from county to county with some counties providing little or no assistance. There are few programs to divert the mentally ill from the criminal justice system.

**The TennCare Partners Program Has Not Provided a Full Range  
of Alcohol and Drug Treatment Services for Those Diagnosed  
With a Combination of Substance Abuse and Mental Health  
Problems**

TennCare Partners uses treatment guidelines that are not as comprehensive as those offered by the Department of Health's Bureau of Alcohol and Drug Abuse Services. Under the state's contract with the behavioral health organizations (BHOs), substance abuse benefits are limited to inpatient hospital and outpatient substance abuse treatment. The BHOs are required to pay for the treatment of Partners enrollees in a residential treatment facility only when such treatment is deemed "medically necessary" and a "cost-effective alternative."

**OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: the utilization of the department's five regional mental health institutes, the Title 33 Revision Commission recommendations, the Memorandum of Understanding transferring oversight of the TennCare Partners program to the Department of Mental Health and Mental Retardation, and the actuarial study regarding the revised consent decree in *Grier et al. v. Wadley et al.*

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**Tennessee Housing  
Development Agency**

March 2001

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**Funding for the Single-Family Homeownership Program Using  
Tax-Exempt Revenue Bonds May Not Be Adequate to Meet the  
Program's Demands**

The Single-Family Homeownership Program provides funds for below-market interest rate mortgage loans to those who qualify. The agency sells tax-exempt revenue bonds to fund the program, but federal law limits the amount of these bonds that can be sold. The agency will have limited resources in the future to provide mortgage funds. Although management made program requirements more restrictive in November 1999 and February 2000, the amount of loan requests from eligible applicants was still at a pace that could not be supported by current resources. Each tightening of program requirements increases the number of households that need the program and cannot qualify for it.

**The Agency Needs a Comprehensive Management Plan**

A plan is needed to establish state housing priorities, describe methods to use to accomplish plan objectives, and identify desired program outcomes. Evaluating the effectiveness of housing activities is difficult without a plan with specific goals and objectives against which operations can be compared.

**The Housing Management Division Does Not Follow Its  
Procedures Requiring Verification of Assets for Section 8  
Assistance**

The Section 8 program provides rental assistance to those who meet eligibility requirements; however, assets valued at \$100 or more were not verified as required.

**OBSERVATIONS AND COMMENTS**

The audit also discusses the following issue that may affect the operations of the Tennessee Housing Development Agency: the percentage of very-low-income beneficiaries of the homeownership program has recently increased.

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**Department of Human  
Services**

April 2001

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**Families First Program**

Implementation of the Families First program has resulted in significant and far-reaching changes in the delivery of services to needy families. The state deserves credit for pursuing a waiver which allowed it to implement its own reforms to help families move toward self-sufficiency. The full impact of the Families First program will not be known for several years. The University of Tennessee and the University of Memphis are conducting ongoing evaluations of the program. This report makes several recommendations to improve the Families First program.

**Many Families First Participants Do Not Comply With Their  
Personal Responsibility Plans**

Many Families First Program participants do not attend work component programs, drop out of these components before

completion, and do not show up for scheduled meetings with case managers, as required by their personal responsibility plans.

#### **Families First Case Manager Caseloads and Turnover Appear Excessive**

Caseloads are too large to allow case managers to give enough attention to Families First participants in attempting to make them economically self-sufficient. Also, case manager turnover was 18% in fiscal year 1999, but the rates in Davidson (56%) and Shelby (23%) counties, where half the Families First participants are located, are much higher.

#### **Case Manager Transition From Eligibility Determination to Assisting Families First Participants to Become Self-Sufficient Appears Incomplete**

Not all case managers have successfully transitioned from just determining client eligibility for benefits to counseling participants on ways to become economically self-sufficient. Department management stated that case managers were still in the middle of the “evolution” from focusing on eligibility to helping participants get permanent work.

#### **Training for Case Managers in Recognizing Barriers to Self-Sufficiency Should Be Improved**

Case managers need to have sufficient training to recognize barriers such as domestic violence, learning disabilities, mental health problems, and/or substance abuse that prevent Families First participants from accomplishing the program’s main goal of reducing welfare dependency.

#### **Service-Provider Contracts Lack Outcome Measures**

Contracts between the department and providers of services for the Families First Program do not contain outcome measures requiring specific contractor performance in helping Families First participants become self-sufficient.

#### **Several Families First Participants Appear to Abuse the Conciliation Process**

Before an “assistance group” (family receiving assistance) is sanctioned, the case manager is required to attempt a conciliation conference with the adult who has not complied with his or her personal responsibility plan. The purpose of the conciliation conference is to determine whether there is “good cause” for the participant’s noncompliant action. Many participants take advantage of the lack of a limitation on the number of times they can go through the conciliation process.

### **The Two Management Information Systems Still Cannot Monitor and Report Some Information Pertaining to the Families First Program**

The department uses its Automated Client and Eligibility Network for Tennessee (ACCENT) system and the Department of Labor's Job Training Partnership Act (JTPA) system to monitor and report the progress of the Families First Program. These two systems cannot provide information on whether participants are adhering to immunization, health-check, and school attendance requirements for their children and cannot report the number of participants working at the end of 18-month and 60-month time limits and the rate of participant reentry.

### **The Department Does Not Have Formal Systems to Track Major Employers of Families First Participants and Obtain Feedback**

The department does not have a formal system to track the major employers of Families First participants, including the number of participants employed, the locations of employment, the types of employment, the duration of employment, and hourly wages. Therefore, the department does not have sufficient information to assess how participants are progressing in becoming self-sufficient in specific areas of the state.

### **Orientation Information Provided to Families First Participants Is Inconsistent**

The department does not have a policy on what brochures should be given to new participants or appear to have a common set of documents that county offices give to participants. It is important that participants get consistent and complete information in order to develop a good personal responsibility plan and understand its requirements.

### **The Department Needs to Improve Its Availability of Support Services to Potential and Current Families First Participants**

Individual development accounts, mentoring programs, and diversion programs could help Families First participants or potential participants support themselves and prevent entry or reentry into the Families First program.

### **Families First Case Manager Job Descriptions Are Not Up-to-Date**

With the advent of the Families First Program, case manager responsibilities have increased to include social work, not just eligibility determination for benefits. Case managers need to motivate, coach, communicate, and build rapport with participants. However, the current job descriptions for case managers have not been updated to reflect changes brought about by Families First.

### **The Department's Management Controls Over Families First Child Care Support Have Improved**

In response to the 1998 Families First performance audit, the department strengthened its controls over child care support services.

Subsequently, the department decided, pursuant to the recommendation of the Governor's Committee on Child Care, to take over the administration of the child care subsidy program.

### **The Department Is Not Using Its License Revocation Power to the Greatest Possible Extent**

State law requires state licensing authorities to revoke licenses from noncustodial parents who are delinquent in their child support payments. Section 36-5-701, *Tennessee Code Annotated*, states that business licenses, professional licenses, driver licenses, and hunting and fishing licenses are all eligible for revocation. According to department officials, the main purpose of this provision is to compel delinquent noncustodial parents to become current on their child support obligations, not to actually revoke their licenses. The department, however, is not using its revocation powers regularly and cannot get needed information on hunting and fishing licenses.

### **Many of the Basic Services Needed by Adult Protective Services Clients Are Lacking**

An *Adult Protective Services Needs Assessment*, commissioned by the department and issued in June 1998 by the University of Tennessee's College of Social Work, identified unmet needs of Adult Protective Services (APS) clients and the need to strengthen the APS program. The most urgent needs included homemaker services, medical care, respite care, home-delivered meals, chore services, transportation, and housing.

### **Some of the Child Care Services for Low-Income Families Need Improvement**

A study commissioned by the department to assess the child care needs of low-income families found that there is a lack of high-quality child care statewide. Also lacking is care for infants, during second and third shifts, on the weekends, and for sick children.

### **OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: the centralized child support collections system, the Welfare-to-Work grant program, certification of the Tennessee Child Support Enforcement System, the High Performance Bonus Program, the hard-to-serve Families First population, Families First participants exempt from time limits, the future of Families First, pooling of federal funds for the Child and Adult Food Care Program, and background checks for child care staff.

### **ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider amending Section 71-3-159, *Tennessee Code Annotated*, to enable the department to implement a diversion program to divert families from monthly cash payments if they can be assisted through other means.

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**Business Tax Study  
Committee**  
April 2001

**CONCLUSIONS**

The Business Tax Study Committee appears to have provided a useful forum for the discussion of tax issues, particularly those issues of interest to Tennessee businesses. The committee allowed for a relatively detailed discussion of taxes or proposed taxes (including a discussion of the effects or potential effects of those taxes), with testimony presented by affected businesses, as well as by representatives of the Tennessee Departments of Revenue and Economic and Community Development and other interested parties.

The major weakness of the committee appears to be a lack of follow-up on the economic impacts of legislation it endorsed. Although the projected impact on state and local revenues was (in most cases) included in the committee's discussions, no assessment of the actual impacts has been made. In addition, other than anecdotal comments, no assessment of the effect of tax-related legislation on Tennessee businesses, or on the state's economic climate as a whole, has been made.

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**Water Quality**  
May 2001

**Standards and Regulations**

The requirements and standards for surface and drinking water appear to comply with requirements listed in federal regulations. The EPA has approved Tennessee's most recent revision of its surface water standards and has awarded Tennessee primary regulation and enforcement responsibility for drinking water standards.

**Surface Water Quality Monitoring**

The objectives for surface water monitoring included a review of progress in developing Total Maximum Daily Loads (TMDLs), permit issuance, adequacy of information systems, and monitoring nonpoint source pollution.

The department expected that it would not be able to develop all the TMDLs for impaired water bodies by 2009 as planned.

The department has had a backlog of National Pollutant Discharge Elimination System permits (35% in December 1999 and 23% in June 2000). However, by January 2001, the backlog had dropped to 10%.

The department is planning to use a new version of an EPA database (STORET) to store water quality monitoring data. This new database will allow direct entry of data and the department hopes to develop the capability for laboratories testing water to enter data directly into this database.

Funds from a portion of the Real Estate Transfer Tax and funds from the federal Water Pollution Control Act Section 319 are used for programs to abate and prevent forestry and agricultural nonpoint source pollution, provide information and education relating to nonpoint source pollution, and provide technical assistance for animal waste disposal systems. However, there is no formal ranking system

for awarding funds to these projects to provide the greatest impact on reducing nonpoint source pollution.

#### **Drinking Water Quality Monitoring**

In order to monitor drinking water adequately, the department needs accurate and reliable data from water systems and must ensure that accurate data is maintained in its information systems. At the state level, the controls over and reviews of self-reported data and laboratory results appeared adequate, and the EPA has found few discrepancies when comparing the state data to the data in the federal information system. A new state version of the federal system (SDWIS) is expected to be operating by summer 2001.

#### **Surface Water Quality Enforcement—Improvements are needed in the Division of Water Pollution Control’s enforcement program**

Reviews of enforcement files revealed record-keeping problems: central office files were not always updated as cases progressed, the resolution of cases was not included in case files, and some files did not contain all required documentation. These problems could result in the inability to properly track enforcement actions by the central office; cases “falling through the cracks” without adequate, timely enforcement action or follow-up; documents having to be sent from the Environmental Assistance Centers to the central office multiple times; and difficulty for citizens and other stakeholders in determining how an enforcement case was resolved.

#### **Drinking Water Quality Enforcement—Some files reviewed lacked evidence of public notification**

Monitoring, reporting, and maximum contaminant level violations require that the water system notify the people served by the system of the violation. A review of the files for 30 water systems with violations in calendar year 1999 (out of a total of 309) showed that in 13 cases (43%) there was no evidence of public notice in the files.

## Special Investigations and Information Systems

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**Glen McKay, Ph.D., MBA, CIA, CGFM, CFE**  
**Assistant Director**

Authority to conduct special investigations is provided in part by Sections 8-4-201 through 8-4-208, *Tennessee Code Annotated*. The Special Investigations Section gathers information and evidence resulting in prosecutions and recovery of funds and coordinates the efforts of other agencies involved in the investigation. The investigators assist local district attorneys general, Tennessee's Office of the Attorney General, the Office of the United States Attorney General, and the Tennessee Bureau of Investigation.

Investigative reviews are initiated as a result of information discovered during audits by the Department of Audit and through information from individuals or other departments and agencies. The matters investigated during the fiscal year ended June 30, 2001, ranged from embezzlement of public funds to abuse of public resources. Investigations were completed on matters at the state level as well as matters at the local level. Investigators often found that losses were incurred as a result of weak internal control or ineffective management.

Our investigative reviews resulted in the recovery of \$14,649 during fiscal year 2001. Illegal activities exposed during fiscal year 2001 resulted in three convictions. As a result of the exposure of their activities, four state employees were terminated from employment with the state, six resigned, and two were suspended; and one county employee was terminated from employment with the county.

Since October 1983, the Department of Audit has provided a toll-free hotline for reporting fraud, waste, and abuse of government funds and property. Periodicals throughout Tennessee publish information to



alert citizens to the hotline and encourage them to report wasteful, inefficient, or fraudulent activities. In addition, agencies receiving community grant funds are required to display in a prominent place signs calling attention to the hotline. Since its inception, the hotline has received 8,054 calls, including 397 calls between July 1, 2000, and June 30, 2001. Of the 397 calls, 123 concerned allegations of fraud, waste, or abuse. The substantive calls—those relating to fraud, waste, or abuse—concerned a wide range of entities, including municipalities, counties, state agencies and departments, and federal agencies and departments. A more detailed analysis is below. Substantive calls are investigated by the Department of Audit or referred to the appropriate state agency or program.

Of the 123 calls referred for action, responses have been received on 86 and are considered closed. The remaining 37 continue to be considered open.

The remaining 274 calls have not been acted on because they were either repeat calls or were not relevant to the purpose of the hotline. Calls in the latter group include wrong numbers, general inquiries about the hotline, and requests for service provided by other agencies, such as tax assistance. Where applicable, the callers are referred to the appropriate agency or department that can provide assistance.

<b>Results of Hotline Calls</b>	The following are summaries of the results of the hotline calls upon which corrective action was taken by the subject agency for the year ended June 30, 2001.
<b>Environment and Conservation–Rude Employee</b>	Management spoke with both complainant and employee regarding complainant’s grievance. Resolved to caller’s satisfaction.
<b>Labor–Conflict of Interest</b>	Found no actual conflict of interest; however, complainant’s concern did have appearance of conflict of interest. Employees agreed to no longer participate in activities that gave an appearance of conflict of interest.
<b>Human Services–Failure to Pay Employees</b>	Department paid individuals.
<b>Human Services–Abusive Shelter Employee</b>	Terminated employee.
<b>Human Services–Daycare Transportation</b>	Caller alleged a failure to provide reliable transportation for daycare children. Found agency had difficulty in managing the logistics of providing transportation. Management reviewed the transportation rules with agency and provided technical assistance to prevent such problems.
<b>Human Services–Travel Claim Abuse</b>	Caller alleged employee was making travel claims for travel from home to work. Investigation discovered employee’s official station was no longer his home and made the station change effective June 1, 2001.

**Table 1**  
**Analysis of Substantive Hotline Calls**

<u>Agency Involved</u>	<u># of Calls</u>	<u># Responded</u>	<u># Outstanding</u>
<u>Local Government</u>			
Elected Officials	2	1	1
Local Welfare Programs	3	2	1
Law Enforcement	2	2	
Utilities Department	1	1	
<u>County Government</u>			
County Highways	5	3	2
County Health Departments	1		1
Elected Officials	2	2	
Clerk's Office	1	1	
Law Enforcement	1	1	
<u>State Government</u>			
Safety	4	2	2
Revenue	2	1	1
Human Services	25	19	6
Transportation	3	1	2
Correction	2	1	1
Financial Institutions	1		1
Military	2	2	
Labor & Workforce Development	3	2	1
Education	4	3	1
East Tennessee Human Resource Agency	1		1
Secretary of State	1		1
Mental Health and Developmental Disabilities	10	5	5
Tennessee Commission on Aging	4		4
Board of Regents	1		1
Board of Professional Responsibility	1		1
Environment and Conservation	4	4	
General Services	3	3	
Health-Office of Health Services	26	26	
Children's Services	1	1	
Public Defenders Conference	1	1	
First Tennessee Human Resource Agency	1	1	
<u>Federal Government</u>			
Health and Human Services	1		1
Department of Labor	1	1	
Housing and Urban Development	1	1	
<u>Other</u>			
Salvation Army	2		2
<b>Total</b>	<b>123</b>	<b>87</b>	<b>36</b>

<b>Human Services–Daycare Menu</b>	Caller identified concerns with food services provided by daycare center. Investigation found center in compliance with department's Child and Adult Care Food Program. However, the department recommended changes and provided sample menus.
<b>Public Defenders Conference–Unauthorized Travel Reimbursements and Overpayments</b>	Review revealed two current employees and one former employee received reimbursement for travel expenses during a time they were recorded on leave with pay. Sent invoices to individuals for reimbursement.
<b>Mental Health and Developmental Disabilities–Unsafe Facilities</b>	Caller alleged unsafe parking conditions. Review substantiated complaint. A Licensure Notice of Non-Compliance Plan Compliance Form was issued. Monitoring of conditions assigned to Licensure office.
<b>Health–Office of Health Services–Excessive Wait</b>	Caller alleged that she and relative had to wait an excessive amount of time before being provided with health care services. Review substantiated allegation. Determined lack of medical staff was the cause and added a new staff person to improve clients' waiting time.
<b>Health–Office of Health Services–Rude Employee</b>	Caller alleged rude treatment by Health Center employee. Management questioned employee and employee admitted making unprofessional comments, but stated complainant also made insulting remarks. Management issued a written warning for the employee's actions.
<b>Health–Office of Health Services–Rude Employee (2)</b>	Caller alleged rude treatment by Health Clinic employee. Supervisor extended apology for employee's behavior. Supervisor gave employee a written warning and alerted employee to notify supervisor when problems arise in the clinic.
<b>Health–Office of Health Services–Unprofessional Conduct</b>	Caller alleged unprofessional conduct by Health Clinic staff. Management instructed staff to treat patients in a professional, caring manner.
<b>Health–Office of Health Services–Nepotism</b>	Caller alleged violation of state's nepotism policy. Investigation substantiated allegation but revealed director of department corrected the violation before receiving the complaint.
<b>Health–Office of Health Services–Inability to Make Appointment</b>	Caller alleged it was very difficult to make an appointment with health department. Investigation determined that health department was short-staffed at time of complaint due to staff members on Family Medical Leave. Recommended that the regional office monitor appointment schedules daily to assure available appointments.
<b>County Audit–Misappropriation of Road Supplies</b>	Caller alleged County Road Department was wrongfully installing culverts on private property using county funds. Investigation did not substantiate improper activity; however, it was determined the County did not have a formal written policy for the purchase, installation, and minimum size requirements for culverts installed on county right-of-way. County's annual financial report will contain finding.

<b>County Audit–Inappropriate Road Work</b>	<p>Caller alleged county road department was dumping gravel on private driveways and private roads at taxpayers’ expense. Investigation revealed dumping was done on the county right-of-way. However, investigation also revealed other allegations. Those determined to have merit included an allegation that a road department employee solicited money or services for performing normal county road work, specifically from the Amish community; and the road superintendent made his employees construct pro wheel tax referendum signs on county time and at county expense. Regarding the solicitation of money or services from the Amish, the road superintendent removed the employee from his supervisory position. Regarding the superintendent requiring employees to construct signs, the investigation found that county employees attached the signs to sticks and distributed the signs on county time. County Audit developed an exit conference finding and recommendation.</p>
<b>Safety–Travel Time Abuse</b>	<p>Caller alleged employee was driving herself to job site and secondary site rather than riding with crew assigned to sites. It is now a policy of the division that all employees assigned to a crew would meet at the primary location and travel together to the secondary site.</p>
<b>Special Investigations</b>	<p>The Special Investigations Section’s contribution to the state is significant in that the section exposes abuses of public property and funds and, when possible, aids in the recovery of funds lost through illegal activities. Furthermore, as a result of our special investigative reviews, agencies that have been the victims of abuse are able to develop better controls to prevent, or at least deter, future occurrences of fraud, waste, or abuse.</p>
<b>Results of Investigations</b>	<p>The following are summaries of the results of the special reports released during the year ended June 30, 2001.</p>
<b>School Board Member Improperly Obtained \$3,988 in Tuition Fee Discounts–Clarksville-Montgomery County School System</b> June 2001	<p>Between September 1996 and August 2000, Ms. Nita Groves-Hill, school board member of the Clarksville-Montgomery County School System, received improper fee discounts totaling \$3,988 for her relatives from the University of Tennessee, Knoxville. The 13 fee discount forms that Ms. Groves-Hill submitted were approved by Mr. David Baker, director of schools for Clarksville-Montgomery County.</p> <p>To qualify for the fee discount, a person must either be a full-time certified public school teacher in Tennessee or a state employee. Although Ms. Groves-Hill taught Health Occupations in 1985 and 1986 as a certified apprentice schoolteacher, her license expired in 1991, five years before she signed the first form. No record of her exists in the State Employee Information System database, which contains information from 1992.</p> <p>Ms. Groves-Hill stated that she checked her employment status as a “Licensed Public School Teacher” on the forms because she had at one time been a licensed teacher and that she felt entitled to the fee discounts because, as a school board member, she was an employee</p>

of the state. Ms. Groves-Hill also maintained that she presumed she was eligible because Mr. Baker approved her fee discounts. In an interview, she acknowledged that she signed the forms in error and made restitution of \$3,284 for 11 fee discounts. Two fee discounts for the fall 2000 semester were reversed by UTK, and the \$704 was paid from her relatives' financial aid accounts.

Mr. Baker told the auditors that he signed the 13 forms because Ms. Groves-Hill told him someone from the university had told her that she qualified. Mr. Baker stated that since Ms. Groves-Hill was an individual to whom he reported because she was a school board member, he did not question her. Further, Mr. Baker acknowledged that he had instructed Ms. Elaine Best, a Teacher Certification Specialist, to stamp the forms as approved.

After we referred the matter to the District Attorney General for the Nineteenth Judicial District, the Division of State Audit received information that Ms. Groves-Hill had submitted an additional form, which resulted in a discount of \$48 at Pellissippi State Technical Community College. A relative repaid the \$48 to the college.

On May 7, 2001, the Clarksville Grand Jury indicted Ms. Groves-Hill on four counts of perjury and one count of theft of property over \$1,000. The Grand Jury also indicted Mr. Baker on four counts of perjury and 14 counts of official misconduct.

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**Department of Safety–  
Collection of Payments  
from Defendants in Lieu of  
Court Fines and  
Establishment of an  
Unauthorized Tennessee  
Highway Patrol Equipment  
Account in Unicoi County**

September 2000

The Honorable Joe Crumley, District Attorney General, First Judicial District, notified this office of an unauthorized account maintained by the City Recorder of Erwin, Tennessee, to benefit Department of Safety highway patrol personnel. The city recorder maintained the money in a designated account within the city's general fund, initially identified as the "DUI Enforcement Fund" and later as "Due to Tennessee Highway Patrol." The THP account was first established with county officials in 1992 and was transferred to the City of Erwin in 1994.

According to General Crumley, the main source of revenue for this account was "donations" made by defendants appearing in the Unicoi County General Sessions Court who had been given citations by highway patrol officers. The defendants apparently made these payments to avoid court-imposed fines. He said that the money was used to purchase video cameras and other items. General Crumley requested that our office review the matter in collaboration with the Tennessee Bureau of Investigation.

The auditors determined that besides the Tennessee Highway Patrol officers, the local sheriff's department, the local police department, and Tennessee Wildlife Resources Agency (TWRA) officers assigned to Unicoi County also requested and used items purchased through the THP account. Therefore, the Division of State Audit reviewed the matter in collaboration with internal audit staff of the Department of

Safety and the TWRA, internal affairs investigators with the Department of Safety, and Tennessee Bureau of Investigation staff.

According to Mr. David Crockett, then District Attorney General, he approved the establishment of the THP account to enhance the efforts of local law enforcement agencies. Mr. Crockett stated that he was not aware of any state statute prohibiting the practice but that in retrospect, he probably should have researched the matter.

The General Sessions Judge in Unicoi County, the Honorable David Shults, stated that approximately six to seven years ago he attended a meeting with Mr. Kent Garland, then an assistant district attorney; Mr. Ralph Marlowe, then the highway patrol sergeant in Unicoi County; and representatives of the local police department and local sheriff's department to discuss establishing the THP account. He agreed to dismiss minor traffic violations with compliance and a \$25 payment to the THP account and to accept plea agreements that included these payments. Judge Shults stated that he did not realize the practice was inappropriate or violated any law.

The Unicoi County THP account (and three similar accounts discovered in other counties) was not authorized pursuant to *Tennessee Code Annotated* Section 9-4-302. Thus, based on presently available information, the general sessions judge, the First Judicial District attorney general, the Erwin city recorder, and highway patrol officials acted outside the scope of their authority. Highway patrol officials in Unicoi County violated purchasing policies and procedures, circumvented fiscal controls, and failed to safeguard state assets. The purchases were not made using the Department of Safety's procedures, were not included in the department's inventory listing, and were not properly tagged, when applicable.

According to City of Erwin "Year-to-Date Account Analysis" reports for the period July 1994 through August 9, 1999, 1,461 deposits totaling \$112,607.14 represented court-directed payments in resolution of minor traffic violations and through plea agreements in resolution of more serious violations. Fines and court costs associated with violations discussed above were divided among the city, county, and state according to the offense. The loss of revenue to city, county, and state entities is estimated to be \$160,710.

Expenditures totaling \$110,732.96 were made through the THP account, with \$88,573.61 expended for equipment. During an inventory conducted by auditors in September 1999, equipment totaling \$11,056.45 could not be located. Expenditures totaling \$1,675.82 were of a particularly questionable nature.

According to Opinion Number U91-80, issued by the Office of the State Attorney General on May 29, 1991, a general sessions judge does not have authority to order a defendant to make a contribution to a designated entity. Furthermore, a judge who directs a defendant to make a contribution may be in violation of ethical standards.

Department of Safety officials had conducted a similar review in April 1993 which revealed that Mr. Ralph Marlowe, then a Tennessee Highway Patrol Sergeant in Unicoi County and currently the Unicoi County Sheriff, had acquired equipment through funds from the Unicoi County Trustee. At that time, payments in lieu of fines were collected by the county clerk's office, deposited by the county trustee's office in a county revenue account, and expended through checks written by the county executive's office. The 1993 review did not address the unauthorized account. The department's fiscal director, Mr. Bill Hedge, sent out a memorandum that gifts or donated funds should be forwarded to the department's cashier. The memorandum did not specifically address the mischaracterization of payments in lieu of court-imposed fines as "donations" or the impropriety of accepting such payments by department staff.

According to the Director of Internal Affairs, Captain Gerald Allen, the two highway patrol officers in Unicoi County associated with this fund had resigned.

This matter was referred to the Office of the District Attorney General, First Judicial District, in December 1999. According to a March 18, 2000, press release issued by that office, General Crumley decided not to pursue criminal prosecution because of a lack of criminal intent and the perpetuation of the practice by the former district attorney general.

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**Department of Commerce and Insurance—Review of Inaction on the Part of Insurance Division Employees Involved in the Regulation of Franklin American Life Insurance Company**

July 2000

Beginning in May 1999, it was reported in the news media that Mr. Martin R. Frankel, an unlicensed securities broker from Greenwich, Connecticut, had disappeared after allegedly stealing \$200 million. The funds belonged to Franklin American Life Insurance Company and other related corporate entities in the United States that also invested their reserves with Liberty National Securities, Inc., the brokerage firm that Frankel anonymously controlled.

The Division of State Audit received information alleging that state regulators within the Tennessee Department of Commerce and Insurance failed to react to warning signs and information regarding Franklin American Life Insurance Company and Liberty National Securities, Inc., that should have revealed the activities of Mr. Frankel. It was also alleged that the department gave special treatment to the company, in light of relationships between the company, a former department Commissioner, and a former analyst with the department. This review determined that regulators within the Department of Commerce and Insurance failed to detect the fraudulent nature of Mr. Frankel's activities before May 1999 because department staff did not exercise skepticism, conducted inadequate procedures and reviews, and misapplied procedures. The department's breakdown in its regulation of Franklin American Life Insurance Company occurred despite significant warning signs of questionable activities. Furthermore, there was a lack of communication between the insurance division staff and other department officials.

Throughout all of its dealings with Franklin American Life Insurance Company, department staff and officials were presented with unusual circumstances. However, the department took the approach that unless there were laws, regulations, or policies that clearly would prohibit transactions on the part of the company, the department did not have the authority to act. Over the seven and a half years that the department regulated Franklin American Life Insurance Company before the company ceased operations in May 1999, department staff and officials had several opportunities to take more aggressive action against the company. If staff had exercised reasonable skepticism, the fraudulent nature of the activities would have become apparent.

The review determined that the department unintentionally failed in its regulatory functions regarding Franklin American Life Insurance Company. This review did not substantiate the allegations that the company was given any special treatment.

The department was in compliance with state statutes regarding the filing of all required documents in relationship to the acquisition of Franklin American Life Insurance Company and its holding company by Thunor Trust. However, the department approved the acquisition without fully understanding and questioning the transaction.

On May 5, 2000, our office submitted information regarding this matter to the Office of the State Attorney General, the United States General Accounting Office (GAO), the Federal Bureau of Investigation (FBI), and the Tennessee Department of Commerce and Insurance.

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## **Information Systems**

The Information Systems (IS) section provides two basic services: data retrieval and IS systems review.

### **Data Retrieval**

The data retrieval staff provide information for audit field work. They write computer programs to provide information from the state's centralized accounting system, individual agency service delivery systems, and college and university transaction files. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations.

Data retrieval staff also produce listings and perform comparisons and other procedures to detect errors or irregularities. Working closely with other audit staff, retrieval staff develop new computer-assisted audit techniques.

### **Information Systems Review**

The IS review staff are responsible for obtaining and documenting an understanding of the internal control structure in the computerized accounting and management information systems of entities undergoing financial and compliance audits. These entities include state agencies, colleges and universities, and quasi-governmental organizations. The IS staff review the general and application



controls within data processing systems when those systems significantly affect the auditee's operations. The results of these reviews are included in the financial and compliance audit reports. The individual computer centers for various state agencies are audited according to generally accepted government auditing standards.

## **Developments**

During the state's preparations for the Year 2000, 327 application systems were identified by state agencies as mission critical, i.e., their failure would have a significant impact on the agencies' functions. The IS section has begun conducting Data Reliability Reviews on these application systems. These reviews are designed to assess the reliability of key elements of the application's computer processed data, assess the implementation and effectiveness of user control procedures (reconciliations and manual checks to ensure that data is complete and accurate), and to assess the manual follow-up procedures (procedures in place for error correction and review). The procedures conducted are based on the GAO's supplement to *Government Auditing Standards, Assessing the Reliability of Computer-Processed Data*, and the AICPA's *Audit Guide, Consideration of Internal Control in a Financial Statement Audit*.

The IS section is developing automated techniques to reduce costs and improve efficiency. The retrieval and review staff work with the financial and compliance auditors to create computer-assisted audit techniques (CAATs) that use computer programs to perform portions of the audits now done manually.

To expand its capability to perform CAATs, the division has implemented Audit Command Language (ACL), data analysis and reporting software. ACL enables nontechnical auditors to perform sophisticated queries and analyses of financial transactions. Because ACL's capabilities are audit specific, yet still highly flexible, the software allows auditors to readily organize and evaluate information embedded in complex systems. IS audit staff provide support in the migration of CAATs from the mainframe to the financial auditors' personal computers.

The IS audit staff recognize that as computer-based systems become more commonplace, all auditors will need increased technical skills to perform their jobs. Toward that end, the IS section has been heavily involved with in-house training and for several years has taught classes on word processing, PC operating systems, spreadsheet software, specialized audit software, and auditing automated financial management systems. In addition, information is exchanged through contacts with other state audit organizations for ways to improve IS audit support.

## Legislative Liaison

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**Allen Barron**  
**Legislative Liaison**

The Comptroller's Office provides staff to the Senate and House Finance, Ways and Means Committees for assistance with fiscal and budget information. In addition to furnishing information, the staff produces three fiscal publications for distribution to legislators and their constituents and other government agencies.

The *Fact Book*, first prepared in 1987, is an annual, pocket-sized publication that is a compilation of budget information and facts about major departments of state government. It also includes federal, state, and local budgets and graphs; revenue schedules; and various national and state data comparisons.

*Analysis of Expenditures and Positions and Selected Fiscal Data*, an annual publication since 1981, presents comparisons of budgets and authorized positions by showing the amount and percentage of growth over a five-year period for each department of state government. In addition, the approximately 110-page publication presents fiscal data for various state programs for the same period.

*County-by-County Analysis* consists of 95 sets of schedules (one set of nine schedules for each county) that detail by major programs the estimated state dollars benefiting the residents of a county. State government agencies furnish basic data for the schedules while the Division of State Audit provides significant personnel support for the project. *County-by-County Analysis* has been compiled each year since 1977.



## Division of County Audit

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**Richard V. Norment**  
CIA, CGFM  
Assistant to the Comptroller



**Arthur L. Alexander, CGFM**  
Assistant Director  
Financial and Compliance,  
Contract Audits, & CCIP Reviews

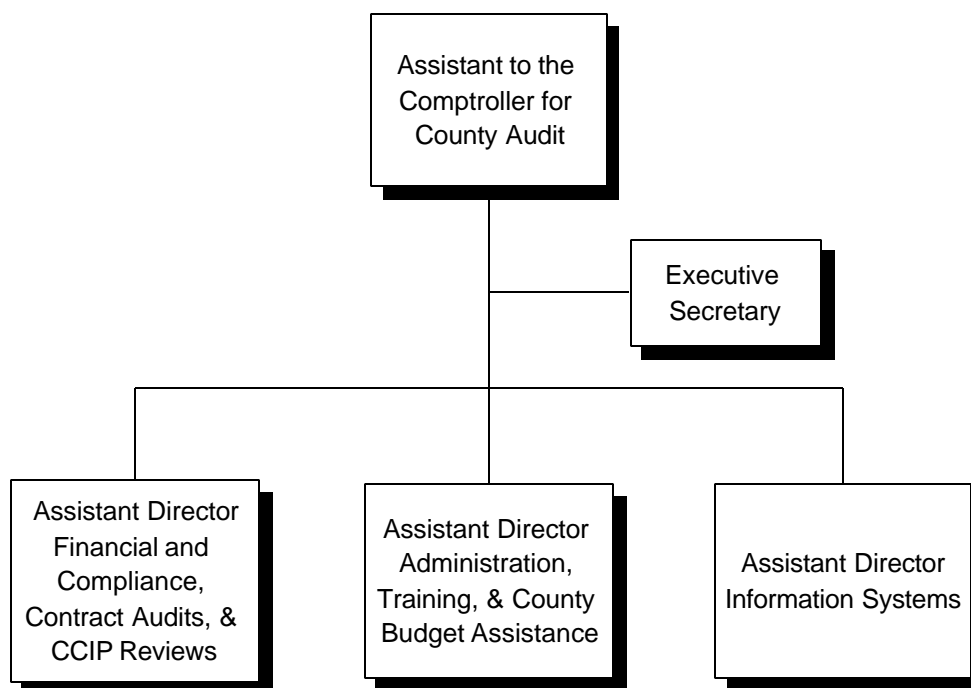


**Bob Powell, CFE, CGFM**  
Assistant Director  
Administration, Training, & County  
Budget Assistance



**Jim Arnette**  
CISA, CGFM, CCP  
Assistant Director  
Information Systems

## Division of County Audit



The Department of Audit, through the Division of County Audit, is responsible for the annual audits of all 95 counties in the state. The division may conduct the audit of a county or accept an audit prepared by a certified public accountant provided the audit meets minimum standards for county audits established by the Comptroller of the Treasury. However, the Division of County Audit is required to prepare an audit in each county at least once every five years or to participate with, or monitor the audit with, the certified public accountant.

### Financial and Compliance

The division presently conducts audits in 87 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.

### Contract Audits

In the remaining eight counties, certified public accountants perform the audits. The division monitors these audits in accordance with a four-year monitoring plan that is updated annually. Typically, the division annually reviews working papers prepared by certified public accountants in two of the counties.

The division also approves the contracts of certified public accountants and reviews their audit reports and working papers. The objective of this review is to ensure that in addition to the standards prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the United States Comptroller General, certain standards prescribed by the Comptroller of the Treasury have been followed.

### **Budgets/Financial Assistance Services**

In addition to the basic post-audit function and the monitoring and review of audits by certified public accountants, the division provides other services. These services include providing assistance, upon request, to counties in resolving current problems with financial administration and interpretation of laws, as well as answering questions on various local governmental matters. Technical assistance also is provided to counties in the design and installation of accounting systems, in the maintenance of other accounting records, and in the preparation of annual operating budgets.

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## **Scope of Activity**

### **Post-Audit of County Governments**

The Division of County Audit conducted audits in 87 of the state's 95 counties during the 2000-01 audit year. A minimum of ten offices or departments in each county was audited:

County Trustee	Circuit Court Clerk
County Executive	General Sessions Court Clerk
Department of Education	Chancery Court Clerk and Master
Department of Highways	Register
County Clerk	Sheriff

The audits of all offices were for the year ended June 30, 2000.

The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment. Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office, then printed and released. The entire process is concluded within approximately four months from the date of initial field work.

The division also prepares audits of two special school districts and performs special audits and reviews as requested or as deemed necessary.

**Information System Review**

Most county government offices and departments in Tennessee have automated all or a portion of their daily operations. The information system (IS) review section is responsible for conducting reviews of those computer-based accounting and information systems to determine whether an entity's existing procedures and controls provide adequate assurance of data accuracy and financial and operating statement reliability. An assistant director supervises this section's IS audit manager and six IS auditors, who are assigned to different areas of the state.

An IS systems review consists of a review of the general and application controls of a county's computer hardware and computerized accounting and information systems. Findings resulting from an IS review are discussed with the appropriate officials and presented in a report on the internal controls regarding computer operations in the county. The IS findings also may be included in the county's comprehensive annual financial report.

IS systems reviews were conducted in 43 counties during the year ended June 30, 2001. The division anticipates that IS reviews will be conducted in 56 counties during the year ending June 30, 2002.

**Budget Assistance**

Several counties request the division's assistance in preparing their annual operating budgets. This technical assistance normally requires five to ten working days. The division provided budget assistance to 46 counties during 2000.

**Monitoring and Review of Contract Audits**

A four-year monitoring plan is maintained by the division for counties audited by certified public accountants. The division will monitor audits of eight county governments during the next four years. The audits of Sumner and Shelby Counties were monitored for the year ended June 30, 2000, and the audits of Knox and Davidson Counties will be monitored for the year ended June 30, 2001.

The division reviewed 282 audit reports for the year ended June 30, 2000, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 295 such reports for the year ended June 30, 2001.

**Reviews of Funds Administered by District Attorneys General**

During 2001, the division conducted reviews of Fraud and Economic Crime Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state's 31 judicial districts. Each review covered the period July 1, 1999, through June 30, 2000. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.

## **Reviews of County Correctional Incentive Program (CCIP)**

*Tennessee Code Annotated*, Title 41, Chapter 8, referred to as the County Correctional Incentive Act, provides counties financial incentives to house nondangerous felony offenders at local correctional facilities. The purpose of the program is to mutually benefit state and county governments by helping to alleviate overcrowding in state correctional facilities and reduce high operating costs, and to assist counties in upgrading local correctional facilities and programs. Counties participating in the program may be reimbursed at either a minimum statutory daily rate or a rate based on a county's "reasonable allowable cost" to house convicted felons.

The Division of County Audit conducts reviews of counties participating in the County Correctional Incentive Program. In performing the reviews, the division tests the county's financial records and other supporting records pertaining to the Final Cost Settlement Reports. Testwork is also performed on the Correction Facility Summary Reports and State Prisoner Reports. Reviews were conducted in 19 detention facilities during the 2000-01 audit year. As a result of the reviews, it was determined that the state had underpaid \$4,783 for six facilities and overpaid \$81,504 for seven facilities. The reviews of six facilities resulted in no over- or underpayments. The record-keeping system for five facilities did not allow us to make a reasonable determination of over- or underpayments, and a final cost settlement for these facilities was at the discretion of the Department of Correction. Subsequent monthly claims filed by the affected counties have been or are being adjusted to reflect the underpayments or overpayments.

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## **Financial and Compliance Audit Process**

The Division of County Audit performs the following general procedures as part of the financial and compliance audit process:

- Evaluates the entity's existing internal controls in the appropriate areas of operation.
- Confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry.
- Determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records.
- Determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing.
- Determines compliance with federal regulations and state and local laws.



- Obtains management's representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure.
- Evaluates financial statement presentation to determine conformity with generally accepted accounting principles.
- Evaluates the validity of all evidence obtained throughout the audit process in order to formulate an opinion on the financial statements.

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## Results of Audits and Reviews

## Financial and Compliance Audits

Audits of financial transactions for the year ended June 30, 2000, conducted by the Division of County Audit disclosed cash shortages in the following offices or funds:

Claiborne County Road Superintendent	\$ 2,328
Cocke County Sheriff	1,060
Decatur County Sheriff	169
Dyer County Clerk	604
Fayette County Clerk	158
Henderson County School Department	2,613
Johnson County Trustee	1,792
Loudon County General Sessions Court Clerk	4,366 (1)
Obion County Register of Deeds	137 (2)
Perry County Trustee	2,450
Sevier County Clerk	1,645 (3)
Sevier County General Sessions Court Clerk	24,245 (4)
Tipton County Clerk	150
Tipton County Sheriff	427
Warren County Trustee	569
Weakley County General Sessions Court Clerk	1,331(5)

(1) This cash shortage occurred November 14, 2000.

(2) This cash shortage occurred September 27, 2000.

(3) This cash shortage is as of December 20, 2000.

(4) This cash shortage is as of November 2, 2000.

(5) This cash shortage is as of October 25, 2000.

The audits conducted by this division disclosed fund deficits of \$107,566,849 in 34 governmental fund accounts in 28 counties. These audits also reflected fund deficits totaling \$13,349,739 in 13 enterprise funds and two internal service fund accounts in 16 counties.

The division's examination of offices and departments in 87 counties resulted in several recurring audit findings summarized below. The number of counties in which the finding occurred is shown in parentheses following the finding.

- A system of central accounting, budgeting, and/or purchasing was not in use, frequently resulting in inefficient and uneconomical operations of various county offices and departments. (59)
- Property records and a self-balancing group of accounts for all general fixed assets were not maintained in accordance with generally accepted accounting principles. (81)
- Fund expenditures exceeded appropriations approved by the local governing body. (23)
- Purchasing procedures were not in accordance with controlling statutes. (30)
- Clerks of court failed to prepare and/or reconcile a trial balance of execution docket balances with cash journal accounts. (19)
- Drug control funds were not administered in compliance with statutory provisions. (10)
- Funds were not deposited within three days of receipt, as required by state law. (16)
- Depositories for county funds were not required to place securities in escrow in sufficient amounts to adequately protect funds on deposit, as required by state law. (16)
- Loans, notes, or lease-purchase agreements were not approved by the County Commission and/or director of Local Finance. (17)
- Fees and commissions earned by the county clerk, clerks of court, and register were not remitted to the county in compliance with controlling statutes. (11)
- Inventory records of assets owned by the county were not maintained, as required by generally accepted accounting principles. (46)
- Deficiencies occurred in accounting/recordkeeping. (67)
- An internal control weakness resulted due to the inadequate segregation of duties for accounting personnel. (83)
- Purchase orders were not used or were not issued properly in the purchasing process. (41)
- The Sheriff's Office had deficiencies in prisoner booking procedures. (35)

Some of the specific findings disclosed in audits and reviews during the past year are summarized on the following pages.

<b>Carroll County Circuit and General Sessions Courts Clerk</b> For the Year Ended June 30, 2000	Our audit revealed that the office had 122 missing receipts, an unexplained drop in revenues, and serious internal control weaknesses in the software application. Consequently, we could not express an opinion on the financial statements of the General Sessions Court and the results of the court's operations as recorded in the Constitutional Officers–Fees Fund and the Constitutional Officers–Agency Fund.
<b>Claiborne County Road Superintendent</b> For the Year Ended June 30, 2000	The Road Department had discrepancies in the acquisition of a grader and the disposition of equipment, including failing to comply with bid statutes, misrepresenting trade information in documentation on file at the department, attempting to conceal the trade of equipment, and other deficiencies. Also, the former road superintendent purchased a Harley-Davidson motorcycle for \$5,900 from the State Surplus Property Division, and we could not determine that the motorcycle served any county purposes. Furthermore, the department did not properly account for its disposition of a truck and trailer.
<b>Coffee County Executive</b> For the Year Ended June 30, 2000	The office had irregularities in air conditioning and heating unit purchases and repairs. County officials paid one vendor more than \$86,000 for calendar year 1999 but did not solicit bids or bid quotations for any of these purchases and repairs, as required by state statute. Other irregularities included treating all air conditioning and heating unit repairs as emergency purchases and failing to use requisitions for repairs and purchases of units.
<b>Dyer County Clerk</b> For the Year Ended June 30, 2000	The office had a cash shortage of an undeterminable amount, resulting from weaknesses in internal controls over computer applications that permitted the manipulation of transactions without prompt detection. The county clerk paid \$90.65 of the identified cash shortage of \$603.85, leaving an unpaid cash shortage of \$513.20 at June 30, 2000. The clerk notified law enforcement, and an investigation is in progress.
<b>Hickman County Finance Director</b> For the Year Ended June 30, 2000	A general review of the office's telephone bills disclosed that some employees charged personal calls to the county. One employee of the Solid Waste Office made 538 personal long distance calls totaling \$241 during a seven-month period, a Highway Department employee made 29 personal long distance calls totaling \$23, and a Registrar of Voters Office employee placed calls totaling \$119 to a 1-900 number and also made 75 personal long distance calls totaling \$25. The Hickman County Commission had not adopted policies for employees' use of county telephones, Internet services, and fax machines.
<b>Houston County Executive</b> For the Year Ended June 30, 2000	The office had numerous deficiencies in its accounting records. In attempting to reconcile the General Fund's cash balance with the trustee's cash balance, office personnel did not try to correct the differences noted. Several expenditures were misclassified on the accounting records of the General and Solid Waste/Sanitation Funds.

Principal and interest requirements on a capital outlay landfill note were paid from the Solid Waste/Sanitation Fund in error, and principal and interest payments on five capital outlay notes were not paid when due. The county did not retire any amount of the principal on a capital outlay note. Furthermore, transactions pertaining to some capital projects were not accounted for through the appropriate capital projects funds.

In addition, the office had payroll deficiencies. Salary supplements for the sheriff and three deputies were not channeled through payroll. General ledger payroll deduction accounts were not reconciled with subsidiary payroll records monthly. Payroll taxes were not deposited with the Internal Revenue Service on a timely basis. Also, several weaknesses were noted involving employees' time, attendance, and leave records.

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**Lake County Sheriff**

For the Year Ended June 30, 2000

The Sheriff's Office had numerous deficiencies in documenting compensatory time. Supervisors did not always sign time cards, time sheets contained errors, work hours were recorded inconsistently on time cards, some time cards inaccurately reflected overtime instead of annual or sick leave, time sheets and time cards did not always agree, some time card corrections were made with liquid correction fluid, some time cards were not on file, other time cards reflected shifts exceeding 12 hours without any breaks, and requests for overtime payment were not made on a current basis.

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**Polk County Executive**

For the Year Ended June 30, 2000

The office did not report and pay federal income, social security, and medicare taxes to the U.S. Department of Treasury from July 1999 through September 2000. Consequently, the office incurred interest charges of \$25,885.

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**Sevier County Circuit,  
General Sessions, and  
Juvenile Courts Clerk**

For the Year Ended June 30, 2000

The office had a cash shortage of \$24,244, resulting from one employee's failing to deposit funds in the office bank account and keeping these funds for his personal use. This employee repaid the funds and resigned his position. We have reviewed this finding with the Office of District Attorney General.

---

**Sevier County Clerk**

For the Year Ended June 30, 2000

The office had a cash shortage of an undeterminable amount, resulting from weaknesses in internal controls over computer applications that permitted the manipulation of transactions without prompt detection. The county clerk identified, recorded, and paid \$1,644 for transactions paid by customers but not accounted for in the office records. Law enforcement was notified, and an investigation is in progress.

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**Warren County Sheriff**

For the Year Ended June 30, 2000

The Sheriff's Office had deficiencies in the lease-purchase of vehicles. The Warren County Commission did not properly approve the lease-purchase agreement, competitive bids were not solicited, and a Report on Debt Obligation for the purchase was not filed with the state director of Local Finance. In addition, the office inappropriately used confidential drug funds to purchase a vehicle for the sheriff's use and did not solicit competitive bids for this purchase.

---

**Information System  
Reviews**

The following findings resulting from the information system reviews recurred in several offices or departments.

- Duties relating to the automated accounting functions were not properly segregated. Incompatible duties should be properly segregated to strengthen internal controls.
- A disaster recovery plan was not developed to assist the office or department in the re-creation of its data processing environment in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.
- Various software applications did not have sufficient application controls.
- Policies and procedures relating to routine computer operations were not documented. This documentation is needed to provide a basis for management control.
- Periodic system backups were not performed routinely. Furthermore, copies of system backups were not stored in secure, off-site locations. Adequate file retention and system back-up procedures are mandatory to guard against operational errors and disasters.

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**County Correctional  
Incentive Program (CCIP)  
Reviews**

The costs to operate the correctional facilities were not reported in accordance with state guidelines for determining reasonable allowable cost. In some cases, unallowable costs were claimed, while in other cases allowable costs were not claimed. In numerous other cases, costs claimed were either more or less than the actual costs.

## Division of Municipal Audit

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**Dennis F. Dycus, CPA, CFE, CGFM**  
**Director**

The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, and certain nonprofit agencies receiving grants from the State of Tennessee. In addition, the division investigates allegations of misconduct, fraud, and waste in local governmental units other than counties, as well as nonprofit agencies receiving state grants, and performs special-purpose examinations of the internal control structures and compliance of school activity and noncentralized cafeteria funds, utility districts, and municipalities.

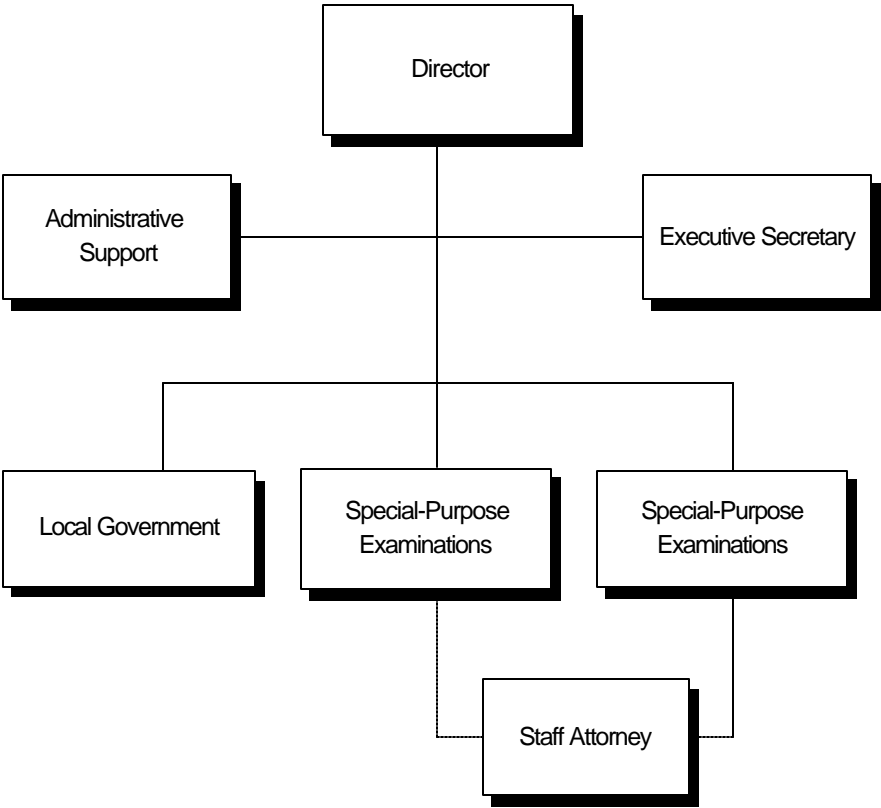
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### **Audit Review Process**

Local governmental units (other than counties) and nonprofit agencies contract with independent certified public accountants to perform annual audits of Tennessee's 351 municipalities, 209 utility districts, 140 public school activity and noncentralized cafeteria funds, 87 housing authorities, and over 225 nonprofit agencies. The entities use a standard contract, prepared by the Comptroller of the Treasury, that must be approved by the Comptroller's designee in the Division of Municipal Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with certain other federal and state provisions.

The Division of Municipal Audit reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit or nonprofit agency fails or refuses to have an audit, the Comptroller may direct the Division of Municipal Audit, or may appoint a certified public accountant, to perform the audit. The division evaluates the audit working papers of certified public accounting firms that audit local governmental and nonprofit entities. If the firm’s audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy. The division is responsible for monitoring over 2,000 nonprofit organizations that receive grants from the State of Tennessee; some of these organizations are required to have an audit of their entire organization. These audits are conducted by certified public accounting firms which contract with the division.

**Division of Municipal Audit**



Sections 68-221-1010 and 7-82-401g(1), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal wastewater and public utility districts to the state's Wastewater Financing Board or the Utility Management Review Board. After reviewing the audit reports, the Division of Municipal Audit will refer financially distressed facilities to the appropriate board. The board then reviews the current financial condition of the facility and its proposed plan for eliminating its financially distressed condition. If the board finds the facility's plan unacceptable, the board will recommend an alternate course of action. During the year ended June 30, 2000, 23 municipal wastewater facilities were referred to the Water/Wastewater Financing Board, and 13 utility districts were referred to the Utility Management Review Board. As a result, several utility districts and municipal water and/or sewer systems are now operating or are on their way to operating on a financially sound basis.

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**Special Purpose  
Examinations**

The division investigates allegations of misconduct, fraud, and waste in local governmental units (other than counties) and certain grant fund recipients. Special-purpose examinations are performed as a result of allegations received through the Department of Audit's toll-free hotline, routine audit reviews, and information received from certified public accountants or other state agencies. Upon completion of each examination, the Comptroller issues a report or letter presenting documented occurrences of improper activity and recommending corrective action. The report is forwarded to the State Attorney General and the local district attorney general for any legal action deemed necessary.

The division also conducts special-purpose examinations that include a thorough review of the internal control structures and compliance with applicable laws. Municipalities are required by statute to maintain their records, at a minimum level, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, prescribed by the Comptroller of the Treasury. Utility districts are required by state statute to follow the *Uniform Accounting Manual for Tennessee Utility Districts*, compiled by the Division of Municipal Audit. State statute requires schools to follow the *Tennessee Internal School Uniform Accounting Policy Manual*, compiled by the Tennessee Department of Education, the Department of Finance and Administration, and the Division of Municipal Audit. At the conclusion of a special-purpose examination, the division publishes a report which identifies internal control structure and compliance weaknesses and recommends corrective action. The examinations point out to officials the importance of sound internal controls and compliance with applicable laws and regulations.

The division routinely provides technical assistance to local government officials and certified public accountants. This



assistance often requires detailed research of financial accounting concepts and state and federal statutes.

<b>Audit and Special-Purpose Examinations</b>	For the year ended June 30, 2001, the Division of Municipal Audit performed 1,046 reviews of audit reports for local governmental units (other than counties) and nonprofit entities. Twenty special-purpose examinations were released, and 8 special-purpose examinations were in progress. The 20 examinations included 13 municipalities, 3 public schools, 3 nonprofits, and one utility district. The majority of the special-purpose examinations involved allegations of fraud, waste, and abuse and revealed weaknesses in internal controls, no controls, or potential problem areas that created an environment for fraud. During the 2001 fiscal year, examinations revealed losses of at least \$686,994.69 due to fraud. Illegal activities exposed during fiscal year 2001 resulted in six indictments and three guilty pleas. Two cases are pending trial.								
<b>Results of Special-Purpose Examinations</b>	Below are summaries of significant problems disclosed in special-purpose examinations.								
<b>City of Lexington, Lexington Electric System, and Town of Sardis</b>	<p>For the period September 1990 through August 2000, Marcum Insurance Agency apparently obtained a total of \$480,723.43 without authorization from these governmental entities by overcharging the entities for insurance coverage as follows:</p> <table> <tr> <td>City of Lexington</td><td>\$451,671.92</td></tr> <tr> <td>Lexington Electric System</td><td>26,337.00</td></tr> <tr> <td>Town of Sardis</td><td><u>2,714.51</u></td></tr> <tr> <td></td><td>\$480,723.43</td></tr> </table> <p>This matter has been referred to the local district attorney general and the United States Attorney for the Western District of Tennessee.</p>	City of Lexington	\$451,671.92	Lexington Electric System	26,337.00	Town of Sardis	<u>2,714.51</u>		\$480,723.43
City of Lexington	\$451,671.92								
Lexington Electric System	26,337.00								
Town of Sardis	<u>2,714.51</u>								
	\$480,723.43								
<b>City of Friendsville</b>	During the period May 1, 1998, through April 30, 2000, utility billing collections totaling at least \$54,351.33 were not deposited into city bank accounts. During this period, the former recorder was responsible for collecting customer payments, recording collections in city records, preparing collections for bank deposit, and delivering deposits to the bank. This matter has been referred to the local district attorney general.								
<b>Clarksville-Montgomery County Community Action Agency</b>	During the period July 1, 1998, through March 31, 2000, at least \$31,860 in fraudulent crisis intervention payments were made as a result of apparently falsified client applications. This matter has been referred to the local district attorney general.								

<b>Park Avenue Elementary and Kings Lane Elementary</b>	Between July 1, 1996, and November 30, 1999, a school bookkeeper issued school checks totaling at least \$11,054.76 apparently for her personal benefit. This bookkeeper also incurred charges totaling \$3,177.69 on the school's credit card that were not for the benefit of the schools. The items charged included a leather attaché, steam vacuum cleaner, keyboard, stereo, television, clothing, jewelry, and beauty items. The examination also revealed shortfalls in various resale and fundraising activities. The former bookkeeper was indicted on three criminal counts and pled guilty to two counts.
<b>City of Crossville</b>	For the period July 1, 1999, through November 30, 2000, a city clerk apparently manipulated utility and property tax records in a scheme to embezzle \$8,181.12 from the city. The clerk was subsequently indicted by the Cumberland County Grand Jury and charged with theft of over \$1,000.
<b>Town of Adamsville</b>	During the period May 1999 through October 2000, the recorder did not promptly deposit into the town's bank account \$79,775 in town collections. Instead the recorder stated that she had used cash from those collections without authority for her personal use. As of December 7, 2000, the recorder had deposited or turned over to the auditors all but \$9,196. The recorder was subsequently indicted for one count of theft of over \$10,000, a Class C felony. She pled guilty to the charged offense and received a three-year sentence on judicial diversion.
<b>Town of New Tazewell</b>	The town recorder operated a private business out of town hall during business hours and from time to time directed town employees to perform work solely related to his private business at a cost to the town of at least \$2,695. The recorder was indicted for official misconduct and tampering with evidence. He pled guilty to official misconduct and received judicial diversion.
<b>Updates</b>	
<b>Town of Kimball</b>	The former recorder pled guilty to official misconduct and was ordered to pay \$6,600 in restitution to the town.
<b>Memphis Police Department and Court System</b>	Three police officers were indicted.



# Appendix

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## **Recognition for Excellence In Financial Reporting**

The Certificate of Achievement for Excellence in Financial Reporting, issued by the Government Finance Officers Association, is the highest form of recognition in government financial reporting. Attaining this certificate represents a significant accomplishment. The following Tennessee governments and entities received this award for the year ended June 30, 2000.

State of Tennessee  
Anderson County  
Blount County  
Bristol Tennessee Electric System  
City of Athens  
City of Bartlett  
City of Brentwood  
City of Chattanooga  
City of Cleveland  
City of Franklin  
City of Germantown  
City of Hendersonville  
City of Johnson City  
City of Knoxville  
City of Lake City  
City of LaVergne  
City of Memphis  
City of Oak Ridge (37 awards)  
City of Tullahoma  
City of White House  
Hamilton County  
Knox County  
Memphis–Shelby County Airport Authority  
Metropolitan Government of Nashville and Davidson County  
Metropolitan Knoxville Airport Authority  
Morristown Power System  
Morristown Water System  
Newport Utilities Board Electric Department  
Newport Utilities Board Water and Wastewater Departments  
Rutherford County  
Shelby County  
Tennessee Consolidated Retirement System  
Town of Collierville  
Town of Farragut  
Town of Livingston  
Town of Smyrna

## Professional Recognition

During the year ended June 30, 2001, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Robert Allen	Municipal Audit	CFE
Mason Ball	State Audit	CGFM & CFE
Melissa Boaz	State Audit	CPA
Walter Bond	State Audit	CFE
Ike Boone	State Audit	CFE
Brad Burke	County Audit	CPA
Tiffany Cherry	State Audit	CFE
Mike Cole	State Audit	CFE
Scott Eads	State Audit	CFE
Michael Ford	County Audit	CGFM
Jodi Geary	County Audit	CGFM
Jonathan Gebhart	State Audit	CFE
William Hancock	State Audit	CFE
Amanda Hoback	State Audit	CFE
Aaron Jewell	State Audit	CFE
Donna Jewell	State Audit	CPA
Teresa Kennedy	State Audit	CPA
Trey King	State Audit	CFE
Phil Job	Municipal Audit	CFE
Greg Lawrence	Municipal Audit	CPA
Tuan Le	State Audit	CPA
Derek Martin	State Audit	CGFM
Karen Masters	State Audit	CISA
Mike Mayhan	Municipal Audit	CFE
Mary McCalip	State Audit	CFE
Glen McKay	State Audit	CISA
Kelley McNeal	County Audit	CGFM
Lori Pendley	State Audit	CFE
Steve Phillips	State Audit	CGFM & CFE
Robyn Probus	State Audit	CFE
Steve Reeder	County Audit	CGFM
Brent Rumbley	State Audit	CISA & CFE
David Sturtevant	County Audit	CGFM
Christy Tennant	County Audit	CPA
Judy Tribble	State Audit	CFE
Clare Tucker	State Audit	CGFM & CFE
Helen Vose	State Audit	CFE
Wendell Voss	State Audit	CPA
Clementine Williams	State Audit	CFE
David Wright	State Audit	CFE

**Professional Certification**

The department is proud of all its staff who have received professional certifications.

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**Certified Public Accountant****Division of State Audit**

Katherine Anderson	Donna Jewell
Ron Anderson	Teresa Kennedy
Mason Ball	Herb Kraycirik
Catherine Balthrop	Derek Martin
Elizabeth Birchett	Sammie Maxwell
Debra Bloomingburg	Jay Moek
Gerry Boaz	Ron Paolini
Melissa Boaz	Steve Phillips
Walter Bond	Chuck Richardson
Lea Ann Boucher	Julie Rogers
Charles Bridges	Erick Rosa
Edward Burr	Brent Rumbley
Mary Cole	Joseph Schussler
Donna Crutcher	Suzanne Smotherman
Michael Edwards	Scarlet Sneed
Laura Fugate	Kimberly Spencer
William Hancock	Chas Taplin
Robert Harrill	Kandi Thomas
Gregg Hawkins	Clare Tucker
Arthur Hayes	Wendell Voss
Shirley Henry	Patricia Wakefield
Teresa Hensley	Carla Wayman
Marcia Holman	Barbara White
Bob Hunter	Dan Willis
Aaron Jewell	

**Division of County Audit**

Penny Austin	Jan Page
Gene Autry	Gerald Poston
Jeff Bailey	Gary Ramsey
Nolan Bradford	Steve Reeder
Sharee Brewer	Vickie Robbins
Brad Burke	Anita Scarlett
Bryan Burklin	Tim Stansell
Melinda Daniel	David Sturtevant
Jerry Durham	Lester Tackett
Marie Elliott	Christy Tennant
Michael Ford	Mark Treece
Kevin Huffman	Clifford Tucker
Michael Hulme	Andrew Way
Wilma Johnston	Kent White
Joe Kimery	Daniel Wilson
Kelley McNeal	Greg Worley

**Division of Municipal Audit**

Robert Allen	Philip Job
Rene Brison	Greg Lawrence
Rebecca Bush	Michael Mayhan
Bill Case	Sheila Reed
Dennis Dycus	Jean Suh
Iris Haby	Elaine Swyers

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**Certified Fraud Examiner****Division of State Audit**

Mason Ball	Glen McKay
Mike Cole	Steve Phillips
Melinda Crutchfield	Robyn Probus
William Hancock	Brent Rumbley
Drew Hawkins	Chas Taplin
Arthur Hayes	Judy Tribble
Aaron Jewell	Clare Tucker
Trey King	David Wright
Bob McCloud	

**Division of County Audit**

Jerry Gallemore  
Bob Powell  
Larry Taylor

**Division of Municipal Audit**

Robert Allen	Philip Job
Rene Brison	Michael Mayhan
Dennis Dycus	Elaine Swyers

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**Certified Internal Auditor****Division of State Audit**

Glen McKay

**Division of County Audit**

Brad Burke	Richard Norment
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**Certified Computing Professional****Division of County Audit**

Jim Arnette

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**Certified Information Systems Auditor****Division of State Audit**

Karen Masters	Chuck Richardson
Deborah Myers	Julie Rogers
Beth Pendergrass	Brent Rumbley
Bob Rice	Dan Willis

**Division of County Audit**

Jim Arnette

---

**Certified Government Financial Manager****Division of State Audit**

Dean Agouridis	Amy Mallicote
Katherine Anderson	Sammie Maxwell
Ron Anderson	Bob McCloud
Mason Ball	Glen McKay
Elizabeth Birchett	Ron Paolini
Debra Bloomingburg	Beth Pendergrass
Gerry Boaz	Steve Phillips
Lea Ann Boucher	Chuck Richardson
Charles Bridges	Erick Rosa
Edward Burr	Randy Salt
Mary Cole	Joseph Schussler
Donna Crutcher	Suzanne Smotherman
Michael Edwards	Scarlet Sneed
Arthur Hayes	Kandi Thomas
Shirley Henry	Clare Tucker
Teresa Hensley	Patricia Wakefield
Marcia Holman	Barbara White
Aaron Jewell	Lisa Williams
Diana Jones	Dan Willis
Herb Kraycirik	Dena Wunningham
Deborah Loveless	Gayle Wortham-Hatch

**Division of County Audit**

Art Alexander	Joe Kimery
Jim Arnette	Carl Lowe
Penny Austin	Kelley McNeal
Gene Autry	Norm Norment
Jeff Bailey	Richard Norment
Marvin Bond	Bob Powell
Nolan Bradford	Ferman Pride
Bryan Burklin	Steve Reeder
Kathi Burriss	Keith Rice
Kathy Clements	Vickie Robbins
Melinda Daniel	June Rogers
Jerry Durham	David Sturtevant
Michael Ford	Lester Tackett
David Frakes	Larry Taylor
Jerry Gallemore	Mark Treece
Jodi Geary	Kent White
Kevin Huffman	Horace Wiseman
Michael Hulme	Greg Worley
Wilma Johnston	

**Division of Municipal Audit**

Dennis Dycus



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**State Audits Released  
During the Year Ended  
June 30, 2001**

**Financial and Compliance Audits**

**State Departments, Agencies, and Institutions**

CAFR—2000

Clean Water State Revolving Fund

Department of Children's Services

Department of Commerce and Insurance

Department of Education

Department of Environment and Conservation

Department of Finance and Administration

Department of Financial Institutions

Department of General Services

Department of Health

Department of Revenue

Department of State

Department of Transportation

Department of the Treasury

Fiscal Review Committee

Health Facilities Commission

Local Government Group Insurance Fund

Office of the Comptroller of the Treasury

Office of Legislative Administration

Sewage Treatment Facilities Fund

Single Audit 2000

Teacher Group Insurance Fund

Tennessee Arts Commission

Tennessee Commission on Aging

Tennessee Commission on Children and Youth

Tennessee Consolidated Retirement System

Tennessee Corrections Institute

Tennessee District Attorneys General Conference

Tennessee Higher Education Commission

Tennessee Housing Development Agency

Tennessee Local Development Authority

Tennessee Sports Hall of Fame

Tennessee State School Bond Authority

Tennessee State Veterans' Homes Board

Tennessee Student Assistance Corporation

**Universities, Colleges, Technical Institutes, and  
Technology Centers**

Austin Peay State University

Chattanooga State Technical Community College

Chattanooga State Technical Community College Foundation

East Tennessee State University

Middle Tennessee State University

Nashville State Technical Institute

Pellissippi State Technical Community College

Tennessee State University

Tennessee Technology Center at Dickson

Tennessee Technology Center at Nashville  
Tennessee Technology Center at Knoxville  
Tennessee Technology Center at Elizabethton  
Tennessee Technology Center at Morristown  
Tennessee Technological Dormitory Corporation  
Tennessee Technological University  
University of Memphis  
University of Tennessee  
University of Tennessee Radio Station  
Walters State Community College

### **Community Services Agencies**

East Tennessee Community Services Agency  
Hamilton County Community Services Agency  
Knox County Community Services Agency  
Memphis-Shelby County Community Services Agency  
Mid-Cumberland Community Services Agency  
Northeast Community Services Agency  
Northwest Community Services Agency  
South Central Community Services Agency  
Southeast Community Services Agency  
Southwest Community Services Agency  
Upper Cumberland Community Services Agency

### **TennCare Audits**

#### **Health Care Facilities**

Crestview Nursing Home  
Imperial Manor  
NHC Healthcare - McMinnville  
Palmyra Health Care Center

#### **Managed Care Organizations**

Memphis Managed Care Corporation  
Preferred Health Partnership

### **Performance Audits**

Business Tax Study Committee  
Department of Human Services  
Department of Mental Health and Mental Retardation and the Board  
of Trustees  
Public Purchases  
Tennessee Department of Transportation, Right-of-Way Division  
Tennessee Housing Development Agency  
Title VI Activities of the Human Rights Commission  
University of Tennessee Board of Trustees  
Water Quality

## Special Investigations

School Board Member Improperly Obtained \$3,988 in Tuition Fee Discounts – Clarksville-Montgomery County School System

Collection of Payments from Defendants in Lieu of Court Fines and Establishment of an Unauthorized Tennessee Highway Patrol Equipment Account in Unicoi County

Department of Commerce and Insurance – Review of Inaction on the Part of Insurance Division Employees Involved in the Regulation of Franklin American Life Insurance Company

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### County Audits Released During the Year Ended June 30, 2001

### Financial and Compliance Comprehensive Annual Financial Reports For the Year Ended June 30, 2000

#### Counties

Anderson	Grundy	Moore
Bedford	Hancock	Morgan
Benton	Hardeman	Obion
Bledsoe	Hardin	Overton
Blount	Hawkins	Perry
Bradley	Haywood	Pickett
Campbell	Henderson	Polk
Cannon	Henry	Putnam
Carroll	Hickman	Rhea
Carter	Houston	Roane
Cheatham	Humphreys	Robertson
Chester	Jackson	Rutherford
Claiborne	Jefferson	Scott
Clay	Johnson	Sequatchie
Cocke	Lake	Sevier
Coffee	Lauderdale	Smith
Crockett	Lawrence	Stewart
Cumberland	Lewis	Sullivan
Decatur	Lincoln	Tipton
DeKalb	Loudon	Trousdale
Dickson	Macon	Unicoi
Dyer	Madison	Union
Fayette	Marion	Van Buren
Fentress	Marshall	Warren
Franklin	Maury	Wayne
Gibson	McNairy	Weakley
Giles	Meigs	White
Grainger	Monroe	Williamson
Greene	Montgomery	Wilson

### **Special School Districts**

Paris Special School District

McKenzie Special School District

### **Special Reports and Limited Reviews**

Reviews of Fraud and Economic Crime Funds, Judicial District Task Force Funds, and Other Funds Administered by the District Attorneys General for the First through the Thirty-First Judicial Districts (July 1, 1999, through June 30, 2000)

Sequatchie/Bledsoe County Landfill for the Period July 1, 1998, through June 30, 2000

Shelby County Circuit, General Sessions, and Juvenile Courts – Collection of Drug Fines

Washington County Personnel Policies

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### **Municipal Audit**

#### **Special Purpose**

#### **Examinations Released**

#### **During the Year Ended**

**June 30, 2001**

Ashanti Services, Inc.

Park Avenue Elementary and Kings Lane Elementary–Metro Schools

Town of Vonore Police Department

Clarksville-Montgomery County Community Action Agency

Mowbray Utility District

City of Lake City

Town of Adamsville

Town of Altamont

City of New Johnsonville

Jellico Electric and Water System

Pine View Elementary–Cumberland County Schools

City of Lexington and Town of Sardis

Town of New Tazwell

City of Waynesboro

City of Crossville

City of Sweetwater

City of Friendsville

Town of Gainesboro

First Tennessee Human Resource Agency

Beaver Elementary School–Henderson County Schools

**Comptroller of the Treasury  
Department of Audit  
Schedule of Revenues, Expenditures, and Reserves  
For the Years Ended June 30, 2001, and June 30, 2000**

	Year Ended June 30, 2001				Year Ended June 30, 2000			
	State Audit	County Audit	Municipal Audit	Department Total	State Audit	County Audit	Municipal Audit	Department Total
RESERVES	\$ 7,006.28	\$ -	\$ -	\$ 7,006.28	\$ 47,966.62	\$ -	\$ -	\$ 47,966.62
REVENUES								
Appropriation	\$ 7,584,500.00	\$ 5,271,400.00	\$ 1,195,600.00	\$ 14,051,500.00	\$ 7,045,200.00	\$ 4,791,200.00	\$ 1,101,000.00	\$ 12,937,400.00
Departmental revenues	4,399,477.77	890,320.32	101,738.57	5,391,536.66	3,859,740.25	741,344.40	228,464.36	4,829,549.01
Total revenues	\$ 11,983,977.77	\$ 6,161,720.32	\$ 1,297,338.57	\$ 19,443,036.66	\$ 10,904,940.25	\$ 5,532,544.40	\$ 1,329,464.36	\$ 17,766,949.01
Total reserves and revenues	\$ 11,990,984.05	\$ 6,161,720.32	\$ 1,297,338.57	\$ 19,450,042.94	\$ 10,952,906.87	\$ 5,532,544.40	\$ 1,329,464.36	\$ 17,814,915.63
EXPENDITURES								
Personal services	\$ 8,022,627.03	\$ 4,172,064.28	\$ 848,548.22	\$ 13,043,239.53	\$ 6,876,229.96	\$ 3,750,107.99	\$ 724,128.02	\$ 11,350,465.97
Employee benefits	1,779,455.30	957,998.81	186,796.75	2,924,250.86	1,451,008.26	829,754.39	155,708.70	2,436,471.35
Total payroll	\$ 9,802,082.33	\$ 5,130,063.09	\$ 1,035,344.97	\$ 15,967,490.39	\$ 8,327,238.22	\$ 4,579,862.38	\$ 879,836.72	\$ 13,786,937.32
Travel	\$ 609,294.65	\$ 412,298.85	\$ 65,396.96	\$ 1,086,990.46	\$ 494,377.03	\$ 379,207.73	\$ 74,479.28	\$ 948,064.04
Printing, duplicating, and film processing	58,684.51	75,962.23	3,856.07	138,502.81	68,137.78	78,798.63	4,561.41	151,497.82
Communication and shipping costs	14,537.28	28,037.49	8,118.36	50,693.13	15,214.31	26,444.98	7,329.51	48,988.80
Maintenance, repairs, and service	7,155.00	1,064.00	164.95	8,383.95	7,238.51	128.00	93.50	7,460.01
Professional and administrative services	108,640.19	52,855.18	22,000.67	183,496.04	104,641.40	70,809.11	2,924.77	178,375.28
Supplies	48,743.46	24,138.02	3,885.72	76,767.20	244,319.22	19,873.87	4,788.75	268,981.84
Rentals and insurance	136,105.41	146,544.72	65,024.65	347,674.78	313,328.52	105,337.80	50,629.44	469,295.76
Motor vehicle operations	-	-	-	-	4.33	-	-	4.33
Awards and indemnities	1,220.06	-	-	1,220.06	611.80	218.50	43.70	874.00
Grants and subsidies	53,354.83	11,802.31	220.56	65,377.70	54,703.97	5,785.44	163.46	60,652.87
Equipment	-	-	-	-	0.00	0.00	-	0.00
Billings and Records Management	87,846.51	24,835.63	9,062.71	121,744.85	37,413.31	15,526.45	6,697.01	59,636.77
Total other	\$ 1,125,581.90	\$ 777,538.43	\$ 177,730.65	\$ 2,080,850.98	\$ 1,339,990.18	\$ 702,130.51	\$ 151,710.83	\$ 2,193,831.52
Total current year	\$ 10,927,664.23	\$ 5,907,601.52	\$ 1,213,075.62	\$ 18,048,341.37	\$ 9,667,228.40	\$ 5,281,992.89	\$ 1,031,547.55	\$ 15,980,768.84
Prior-year expenditures	3,049.98	-	-	3,049.98	44,928.65	-	-	44,928.65
Total expenditures	\$ 10,930,714.21	\$ 5,907,601.52	\$ 1,213,075.62	\$ 18,051,391.35	\$ 9,712,157.05	\$ 5,281,992.89	\$ 1,031,547.55	\$ 16,025,697.49
Excess of reserves and revenues over expenditures	\$ 1,060,269.84	\$ 254,118.80	\$ 84,262.95	\$ 1,398,651.59	\$ 1,240,749.82	\$ 250,551.51	\$ 297,916.81	\$ 1,789,218.14
Reserves carried forward for encumbrances	\$ -	\$ -	\$ -	\$ -	\$ 7,006.28	\$ -	\$ -	\$ 7,006.28
Amount reverting	1,060,269.84	254,118.80	84,262.95	1,398,651.59	1,233,743.54	250,551.51	297,916.81	1,782,211.86
Total	\$ 1,060,269.84	\$ 254,118.80	\$ 84,262.95	\$ 1,398,651.59	\$ 1,240,749.82	\$ 250,551.51	\$ 297,916.81	\$ 1,789,218.14

# National State Auditors Association

August 29, 2000

John G. Morgan  
Comptroller of the Treasury  
Suite 1500, James K. Polk State Office Building  
505 Deaderick Street  
Nashville, TN 37243

Dear Mr Morgan:

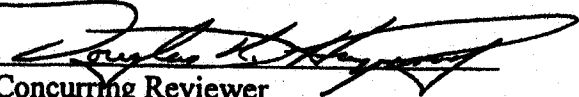
We have reviewed your agency's system of quality control. The purpose of our review was to obtain reasonable assurance of the agency's compliance with government auditing standards. This review included audit reports issued from July 1, 1999 through June 30, 2000. We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). Our review included tests of selected audit engagements for compliance with the agency's quality control policies and procedures as deemed necessary in the circumstances.

In performing our review, we considered the general characteristics of a system of quality control as described in the external quality control review guidelines issued by NSAA. Such a system should be appropriately comprehensive and suitably designed in relation to the agency's organizational structure, its policies, and the nature of its functions. Because individual performance can vary in any state audit organization, adherence to all policies and procedures may not be possible in every case. However, adherence to prescribed policies and procedures is expected in most situations.

In our opinion, the agency's system of quality control for audits issued from July 1, 1999 through June 30, 2000 was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards.



Team Leader  
National State Auditors Association  
External Quality Control Review Team



Concurring Reviewer  
National State Auditors Association  
External Quality Control Review Team

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